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Policy Research Notes

Issue 20

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POLICY RESEARCH NOTES: Published by the Economic Research Service, USDA, and the Illinois Agricultural Experiment Station for professionals in Public Agricultural and Food Policy Research, Teaching, Extension, and Policymaking.

No. 20 Washington, D.C. 20250 December, 1985

INTRODUCTION

As this issue of Policy Research Notes goes to press, the final, difficult decisionmaking -- and negotiating -- for 1985 agricultural and food policy is in process. Although the House completed its action on its omnibus bill on October 8, completion of Senate action was delayed until November 23 due to competing priorities and elusive compromises among strong conflicting policy positions. Even with the Senate acting, completion of the critical additional steps of conference committee deliberations, final action by each house of Congress, and approval by the President seems remote by the end of the year. By comparison, in developing the 1981 Act, the Senate passed its bill on September 18 and the House on October 22, with the conference process consuming 16 days ending on December 8. It was signed by the President on December 22, 1981.

Progress on the 1985 policy has been continually complicated by the protracted budget deficit crisis, the deteriorating economic situation for rural America, and the mounting problems of the Farm Credit Administration and other rural lending institutions. As one response to the impending policy deadlines, a second extension of action-triggering provisions of the expired 1981 Act has already been made to December 13, 1985.

In this issue, several articles pick up threads of these timely policy developments. Johnson, Jolly, Meyers, and Womack report detailed analyses of the current farm financial situation including its economy-wide implications. Guither and Spitze offer a preliminary comparison between the policy preferences of the two recent national farmer and leader surveys and the provisions of 1985 policy that is taking shape. Reinsel then presents an alternative future policy proposal with a quite different direction from the present. Traub, Glaser, and Allen offer a side by side comparison of current law and the House bill for the major provisions of the 1985 Farm Bill.

CONTENTS

Policy Research Notes is a cooperative effort of the Illinois Agricultural Experiment Station and USDA-ERS. Notes are prepared by R. G. F. Spitze, Department of Agricultural Economics, 1301 West Gregory Drive, University of Illinois, Urbana, Illinois 61801, and Milton H. Ericksen, Food and Agricultural Policy Branch, ERS, 1301 New York Ave., N.W., Washington, D.C. 20005-4788

ANNOUNCEMENTS

Next NPPEC Conference Scheduled

The 36th Annual National Public Policy Education Conference has been set for September 15-19, 1986, Denver, Colorado. For further information or input into the program development, contact Dennis Henderson, NPPEC Committee and Program Chair, Department of Agricultural Economics and Rural Sociology, Ohio State University, 2120 Fyffe Road, Columbus, Ohio 43210.

Policy Education Module Under Development

As one of seven modules of instructional material for in-service education of extension agents, one module featuring about eighteen hours of instruction is being developed for policy educators. It is part of a comprehensive package of programs funded by the Kellogg Foundation and supervised at North Carolina State University. The policy education materials are scheduled for release in 1987 and would be generally available then for use by Policy Extension Specialists.

Inquire about this new policy education effort, as well as share examples of successful policy educational programs and materials, by contacting Verne House (co-leader of policy segment along with Ardis Young of Washington State University), Extension Economics Department, Montana State University, Bozeman, MT 59715.

Western Extension Groups Join in Meeting Featuring Policy

The western regional committees on public policy, community development, management, and marketing have scheduled a joint meeting for extension economists for January 8-10, 1986, in San Francisco. It will feature seminars on four topics of current interest and importance: (1) Macro-economics; (2) Structural linkage with rural communities; (3) Rural infrastructure; and (4) Comparative advantage.

In addition, the Western Extension Policy Committee is experimenting with a different system of reporting of activities among the policy workers and sharing of information with the Administrators of the member states. Possibly using a matrix format, the activities will be reported around the several program topics as well as by state or region.

Inquire about this new combined program and reporting approaches from Verne House, Chair, Western Extension Policy Committee, Extension Economics Department, Montana State University, Bozeman, MT 59715.

Southern Extension Groups Announce Policy Conference

The Southern Extension Public Affairs Committee, with the Southern Extension Foresters cooperating, are planning a conference on Forestry Policy and Land Use Management for mid-June, 1986. A location in the southern region is being finalized. Discussions will revolve about four general topics: (1) Public policy and improving the ability for communications and program execution; (2) Issues and problems relating to the shift of land from crops to forestry; (3) Public and private costs/benefits from expanded forest production; and (4) Comparing and contrasting institutional arrangements in the southern region for improved management and for expanding forests.

Inquire about this conference from H. Doss Brodnax, Jr., Chairman, Southern Extension Public Affairs Committee, P. O.Box 5426, Mississippi State University, Mississippi State, MI 39762.

Continued Release of Farm and Food System in Transition Publications

A sixth installment of impressive leaflets has now been published from the National Cooperative Extension Project on "The Farm and Food System in Transition". (See Policy Research Notes, December, 1983, June, 1984, November, 1984, and June, 1985 for announcement of earlier issues). They are part of a series of 63 papers designed to provide a comprehensive discussion of the U.S. farm and food system and related public policy issues expected to be on the agenda for the 1980's. Titles of this installment of papers are:

46. Ronald C. Powers and Daryl J. Hobbs. Changing Relationships Between Farm and Community.
47. Wayne L. Decker. The Implications of Climate Change for 21st Century Agriculture.
48. John P. Nichols. Food, Fisheries, and Aquaculture: Systems in Transition.
49. David Trechter. The Potential Role of Insurance in U.S. Agricultural Policy.
50. Jerry R. Skees. The Changing Role of Government in the Farm and Food System.

The leaflets are planned for use individually or as sets by readers with specific interests and as a total collection for those seeking a general understanding of the system. Reproduction in whole or part, or adaptation for a specific audience, is encouraged as long as the project and authors are properly cited.

Sponsors of this worthy project are the Extension Committee on Policy (ECOP), USDA-Extension, Michigan State Cooperative Extension Service, and the State Cooperative Extension Service. For individual copies of the above papers or further information about this project, contact the Project Director, Jim Shaffer, Department of Agricultural Economics, Michigan State University, East Lansing, MI 48824-1039.

Policy Research Committee Proposes Interregional Project

The technical committee representing the north central states along with California-Berkley and Davis, Pennsylvania State, Virginia Polytechnic and State, and USDA ERS (under NC 169 auspices) has submitted a detailed research proposal to the Experiment State Directors following approval by the North Central Departmental Administrators (NC 12). Entitled "Agricultural and Food Policy Analysis for the 1990's", the three year project is proposed to commence on October 1, 1986. It will focus on six areas of investigation:

(1) Policy development and impacts
(2) Structure
(3) Macroeconomic linkages
(4) Trade policy
(5) Policy models
(6) Food policy

Researchers at any station may join in this interregional through their Experiment Station Directors as soon as the project is approved, probably in early 1986.

Inquire about this new policy research effort from representatives of your unit to NC 169 or by contacting any of the three members of that executive committee: Marshall Martin (Purdue University); Bob Spitze (University of Illinois), and Willie Meyers (Iowa State University).

New Software for FAP's Bulletin Board

Sometime in January a new software program (RBBS-PL) will be operating on FAP's Computer Bulletin Board (ERS/NED). The new program, which addresses up to 99 subdirectories for downloads and uploads, will make file maintanence easier for the system operator. Currently all files, including system files, are stored on the same directory which makes deletion/retention decisions difficult. The phone number for the Bulletin Board will remain the same (786-3400).

A 30-day elapse period between the availability of the instruction guide and the first day of operation is planned. The guide will be available in hard copy as well as a file on the FAP Bulletin Board.

For users, an announcement of the upcoming change will appear on the Board's welcome message. For non-users, please notify Larry Traub, FAP-ERS, Rm. 932, 1301 New York Avenue N.W., Washington, D.C. 20005-4788 in writing for a copy of the instructions.

Policy Issues With EC Accession and Portuguese Agriculture

This project, involving the University of Arizona, Stanford University, and ERS has included an economic policy research and training project in Portugal since 1981. The project has focused on a range of issues dealing with EC membership and Portuguese agriculture.

Inquire about this project, and request a list of available related reports and publications, from Roger Fox, University of Arizona, Department of Agricultural Economics, Tucson, Arizona 85721.

Neglected Dimensions and Alternatives in Agricultural Research Studied

This two year interdisciplinary study has focused on the larger setting and the ethical and value choices involved in selecting agricultural research priorities. Funded by a joint NSF/NEH Grant, the project also examined: social, health, and environmental externalities; biotechnologies; alternative agriculture; and farmer behavior. The study involved twenty researchers interacting in three workshops.

Inquire about this project, and the resulting book published by Rowman and Allanheld, from Kenneth A. Dahlberg, Department of Political Science, Western Michigan University, Kalamazoo, MI 49008.

Analysis of Southern Farmers Preferences on Policy

The Southern Extension Public Affairs Committee has analyzed separately the attitudes of southern farmers about farm programs. Their report highlighting the findings has been released. The publication is based on responses by farmers in five southern states (AL, FL, OK, SC, TX) that cooperated in the national survey coordinated by Illinois last year.

Inquire about this analysis and request a copy of the report, Attitudes of Southern Farmers Toward Government Agricultural Programs, SEPAC Pub. 85-1, February, 1985, from Hal Harris, Department of Agricultural Economics, Clemson University, Clemson, SC 29631.

Survey of Farmers Quitting Agriculture

This study involves a survey of county extension officers about experiences of farmers leaving farming in Iowa. Of those quitting farming for financial reasons, in the past year, an estimated 75% are still living in their home community and only 15% of these were unemployed. Those leaving the communities tended to be younger farmers. Continued financial stress could change these proportions.

Inquire about this study, and request a copy of a related report, "Analysis of Farmers Leaving Agriculture for Financial Reasons -- Summary of Survey Results from Iowa," June, 1985, from Daniel Otto, Department of Economics, 568 Heady Hall, Iowa State University, Ames, IA 50011.

Increasing Understanding Problems and Policies - 1985

The proceedings of the recent National Public Policy Education Conference held at Kerrville,Texas, Increasing Understanding of the Public Problems and Policies - 1985, will soon be available. It includes topics concerning: The policy implications of the changing face of America; Dealing with controversial issues in public education programs; Rural community problems; and Tax reform issues.

Inquire about the availability of these proceedings from Farm Foundation, 1211 W. 22nd St., Oak Brook, IL 60521.

Policy Studies Commissioned by NPPEC

Under the auspices of the National Public Policy Education Committee, two studies and publication efforts have been underway. One focuses on dairy policy alternatives and the other on market policy alternatives.

For information about these studies and the pending publication, contact Ronald Knutson, Department of Agricultural Economics, Texas A & M University, College Station, TX 77840.

Book on Agricultural Policies and World Markets Released

A book by Alex F. McCalla and Tim Josling has recently been published addressing the linkage between agricultural policies and world markets. The book is on three parts: (I) World markets; (II) Open economy country policy analysis which looks at small and large country cases and international market power; and (III) International policy which requires international cooperation. It presents nine case studies and is geared to senior and graduate classes in trade and policy.

Order a copy of this book, Agricultural Policies and World Markets, 1985, (Price of $38) from MacMillan Publishing Co., Inc., 866 Third Avenue, New York, NY 10022.

Debt-Free Farming

This investigation concerned the prevalence of farming without incurring debt. It was found from the 1982 Ag Census that over a million farms reported zero interest expense. Taken as a proxy for debt-free farms, these data indicate even in the problem states such as Iowa, as many as 30 percent of the farms were debt-free, compared with over 60 percent in several of the southern states. Even among the largest categories, a substantial number were debt-free -- 23 percent of those with over 2,000 acres, and 10 percent of those with more than $500,000 gross sales in 1982. Clearly debt-free farming is not limited to the part time and retirement farms.

Inquire about this study, and request a related paper, "Debt-Free Agriculture" from Patrick Madden, Agricultural Economist, 104 Weaver Building, Pennsylvania State University, University Park, PA 16802.

Study of Rural Poverty and Public Policy Launched

A study on rural poverty and public policy is underway in conjunction with the Policy Studies Organization and funded by the Ford Foundation. It will culminate in a symposium issue of the Policy Studies Journal and an edited volume. Approximately one-third of the articles will focus on the United States, while others will deal with Europe (including Poland), and the third world.

Inquire about this project from Aruna N. Michie, Department of Political Science, Kedzie Hall, Kansas State University, Manhattan, KS 66506.

Symposium on Agricultural Change Held

An interdisciplinary conference involving anthropologists, economists, and sociologists addressing interrelated aspects of structural change in the rural sector was recently held. The symposium, with the theme, "Agricultural Change: Consequences for Southern Farms and Rural Communities" was held October 9-11, 1985 in Atlanta, Georgia.

Inquire about this conference, and the availability of proceedings from Joseph J. Molnar, Department of Agricultural Economics and Rural Sociology, Auburn University, Auburn, AL 36830.

Evaluating Viability of Farms and Natural Resource Use

This investigation undertook to document sixty-three functions in sixty-four available systems which can be used to evaluate the agricultural viability of farms and associated natural resource questions. Intended to enhance the dialogue between Geographic Information Systems users and systems suppliers, it involved a nationwide survey conducted by the University of Kansas applied remote sensing program for the American Farmland Trust.

Inquire about this work, and request a related publication, A Survey of Geographic Information Systems for Natural Resources Decisionmaking (charge of $19.95), from Margares Maizez, EIS Project Director, AFT, Suite 601, 1717 Massachusetts Ave., N.W., Washington, D.C. 20036.

Tax Reform and Agriculture

This review examines the potential effects of various tax reforms upon U.S. agriculture. It was developed in response to a request for a hearing by the U.S. House Ways and Means Committee on tax reform, June 24, 1985.

Inquire about this review and request a copy of the testimony from Robert L. Thompson, Office of Economics, USDA, Room 227-E, Washington, D.C. 20250.

Labor Policy Changes Related to the U.S. Beef Packing and Retailing

This study focused on labor relations and on technological and structural changes in the beef packing industry in the 1980's. It related these changes in labor relations to changes in firm ownership and the adoption of boxed beef.

Inquire about this dissertation (copies available for a fee through University Microfilms) from Stephen W. Hiemstra, Apt. 101, 4520 S. 31st St., Arlington, VA 22206.

Agricultural Views of North Carolina's Farmers Examined

This study takes a look at the issues and trends in the structure of North Carolina's agriculture from the perspective of farmers in the state. Issues covered range from perceptions of current problems and opinions on the long term outlook, to familiarity with extension and expectations of agricultural land loss. The results suggest that state and federal agricultural policies directed to the specific needs of small and family farms are needed if these farms are to be preserved.

Inquire about this study from Anwar S. Khan, Department of Economics, NC A&T State University, Greensboro, NC 27411.

Governor's Commission on Agriculture in Wisconsin

This task force effort involved a brief analysis of the Wisconsin farm economy, with specific recommendations for state agricultural policy initiatives, a set of state rural development policies, and change in the tax structure in agriculture. The recommendations are the result of a Commission on Agriculture appointed in early 1985. Some innovative state agricultural and rural development policies are proposed.

Inquire about this effort and request a copy of the report, Final Report, Governor's Commission on Agriculture", from Richard Barrows, Department of Agricultural Economics, Taylor Hall, 427 Lorch St., Madison, WI 53706.

Economic Impacts of BLM Grazing Policies on Idaho Cattle Ranchers

This study estimates 1982 gross receipts, costs and returns for operators using BLM forage. The impacts of varying BLM permits on herd size, feed sources and returns are estimated under several beef cattle price levels. The PRIA grazing fee formula is evaluated with respect to meeting Congress's objectives of collecting a "fair market value" for BLM grazing and helping prevent ranchers from being "forced out of business" when beef cattle prices are low.

Inquire about this study from Gerald Marousek, Department of Agricultural Economics, University of Idaho, Moscow, ID 83843, and request a copy of the resulting publication, Economic Impacts of BLM Grazing Policies on Idaho Cattle Ranchers, Idaho Ag. Exp. Stat. Res. Bul. 136, October, 1985 (cost of $2.50), from Connie King, Ag. Publ. Bldg., University of Idaho, Moscow, ID 83843.

An Economic Analysis of Family Farms in North Carolina: Can They Survive?

This study involves an analysis of North Carolina farms by sales classes. It indicates that those with sales under $40,000 (small and family size) will continue to be at a disadvantage over the next five years. If the decline in these farms is to be stopped or reversed and family farms preserved in the structure of North Carolina agriculture, policies and programs directed to their specific needs will have to be initiated or expanded. This will require the cooperation of the land grant universities, the Extension Service and favorable agricultural policies at the federal and state level.

Inquire about this study, and request a copy of a paper of related interest, "The Future of Farms in North Carolina as Perceived by County Extension Chairmen", Summer, 1983, from Anwar S. Khan, Department of Economics, NC A&T State University, Greensboro, NC 27411.

Science and Technology Policy Priorities Book

A book, Science and Technology Policy: Priorities of Government, by C. A. Tisdell, outlines and reviews the formulation of science and technology policies by governments, with particular attention to the setting of priorities. It includes a comparison of science policy/planning procedures and priorities of OECD countries. In addition, the author's Department of Economics, University of Newcastle, Australia issues regular series of Research Reports or Occasional Papers and Industry Economics Discussion Papers.

Inquire about the availability and costs of these policy references from C. A. Tisdell, Head, Department of Economics, University of Newcastle, New South Wales, 2308 Australia.

Economy-Wide Impacts of the Farm Financial Crisis: A Summary Report

S. R. Johnson, R. W. Jolly, W. H. Meyers and A. W. Womack*

Introduction

Evidence of a serious financial crisis in U.S. agriculture continues to accumulate. Increases in loan delinquency, rural bank failures, and deteriorating farm balance sheets, as indicated by state level surveys, provided early warnings of this emerging problem. A recent ERS/USDA survey supports these indications that the farm financial situation is deteriorating throughout most regions in the United States (references 3 and 5). These data, however, were not available with sufficient lead time to be used in this study.

In December of 1984 the Food and Agricultural Policy Research Institute (FAPRI) jointed the Farm Journal magazine in conducting a national survey to assess in a timely manner the extent and magnitude of the farm credit crisis. The survey was designed to identify the incidence and extent of the farm credit problem at national and regional levels, by farm type and by tenure. With this survey information and farm price and income projections from FAPRI, it was possible to assess the interrelationships of 1985 Farm Bill options and the farm debt situation and define the magnitude and scope of corrective actions required to deal with the crisis.

The Farm Journal survey confirmed that the farm financial problem was not only in the midwestern states that had conducted early surveys. In fact, financial stress was shown to exist nationwide. Differences regionally certainly existed; the Central and Western regions were worse off than the Southern and Eastern. But the national farm debt situation was similar to results of the state surveys conducted one year earlier and, furthermore, confirmed estimates made by the Federal Reserve. Of the $211 billion total farm debt, $120 to $140 billion is held by farmers experiencing financial stress.

The FAPRI commodity program analyses provide a farm income outlook for 1985-1990 ranging from weak to very low levels under most of the options being considered for the 1985 Farm Bill. As net farm income declines, the ability of farmers to service outstanding debt is reduced, leading to higher requirements for liquidation of land and other assets, and lower land values. These conditions increase the number of farmers who become insolvent and intensify the magnitude of loan losses to lenders.

Concern about financial market impacts of large loan losses led to the Wharton Econometric Forecasting Associates (WEFA) analysis, which investigated the macroeconomic consequences of the farm financial situation. The WEFA analysis shows that there are potentially significant macroeconomic consequences of the farm debt crisis. These impacts include higher interest rates, higher unemployment, reduced gross national product, fewer housing starts, lower

*Excerpted from FAPRI Staff Report #9-85, July 1985. Johnson, Jolly and Meyers are Professors of Economics at Iowa State University and Womack is Professor of Agricultural Economics at the University of Missouri-Columbia.

personal income and a larger federal deficit. Moreover, the WEFA analysis indicates that in absence of preemptive actions, the loan losses could significantly effect U.S. financial markets. The farm sector could be seriously jeopardized, and important costs for those not directly involved in agriculture could occur.

The potential negative economy-wide effects of a farm financial crisis and the direct adverse impacts on agriculture, underscore an urgency in considering corrective actions. Clearly, if farm sector financial failures rise sharply, actions by the Federal Reserve, the Administration, and the U.S. Congress will be required to maintain order in the national financial markets. The analyses described below and in the supporting studies have been developed to give U.S. agriculture and those who determine agricultural policy, financial market policy, and Federal fiscal policy an opportunity to design corrective, efficient and timely actions to ameliorate the farm financial crisis. Early corrective and preventive measures might avoid more costly and potentially drastic action later. The stakes for agriculture and national economic performance are high.

Analytical Approach

A straightforward approach was adopted in projecting economy-wide impacts of the farm financial crisis. This approach was guided by the set of questions formulated by FAPRI and WEFA.

- **What is the debt situation for U.S. agriculture in total and by region, type of farm, and type of farm operator?**

- **What are the prospects of generating farm income sufficient to service this debt?**

- **What is the projected level of unserviced and discharged debt, and how is it distributed over time?**

- **What are the economy-wide implications if no action is taken to counter the impacts of the farm debt losses?**

These relatively simple questions were evaluated using the Farm Journal survey, the FAPRI agricultural sector modeling system, FAPRI financial models, and the WEFA long-term model of the U.S. economy.

Results of the research organized by FAPRI to answer these questions are described in four reports (see references 1, 2, 4, and 6) and are summarized in this paper.

Debt Situation for U.S. Agriculture

Information on this question is drawn from the Farm Journal and supporting surveys now available for selected states and the United States as a whole. Analysis of this survey information is contained in the paper by Womack, et.al. with additional results provided by Jolly and Doye. In the Farm Journal survey, 8,000 owner-operators were randomly selected from a Farm Journal panel containing 1.1 million names. About 1,600 responses were received to a 4-page mail questionnaire. Of the questionnaires returned, 1,232 were useable for the analysis. Comparing this survey to national probability sample surveys from

ERS/USDA indicates that the ERS survey is more representative of the total farm population and the Farm Journal survey is more representative of commercial farm operators.

Major results from the analysis of the Farm Journal survey are summarized in Tables 1 and 2. Table 1 contains information on the distribution of U.S. agricultural debt by debt-to-asset ratio. The debt-to-asset ratio measures relative indebtedness and is a simple indicator of financial stress. Generally, farmers with debt-to-asset ratios less than 40 percent are not experiencing severe financial stress. As shown in Table 1:

- **The majority of farms are in the low debt-to-asset ratio category. About 69 percent of farms have debt-to-asset ratios of 40 or less and hold only 37 percent of the farm debt.**

- **Farms in the 40 percent and over debt-to-asset ratio categories composed about 31 percent of the total and held about 63 percent of the farm debt.**

- **About 27 percent of farm debt is held by the 14 percent of farm operators with debt-to-asset ratios of over 70 percent. Farmers in this category will have a difficult time correcting their financial problems.**

In short, much of the outstanding agricultural debt is held by a minority of U.S. farmers, who are highly leveraged. The USDA survey includes more small farms, which mostly fall in the low debt class; but the percent of total debt in jeopardy indicated by their analysis is the same (references 3 and 5).

Table 1. National Agriculture Debt Distribution Estimated from Farm Journal Survey.

Debt/Asset (%)	% of Farms	% of National Debt	% of Agricultural Assets
00-10	40.7	2.7	36.8
10-40	29.5	34.2	37.1
40-70	16.9	36.7	18.5
70 Plus	13.8	26.1	7.7

Source: R.W. Jolly and D.G. Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report #8-85, Iowa State University, July 1985.

Information from the Farm Journal survey on average debt-to-asset ratios by age owner-operator group and region is contained in Table 2 and shows:

- **The national debt to asset ratio is about 26 percent.**

- **Debt-to-asset ratios are highest in the Central region and lowest in the Eastern.**

- **Younger farmers have relatively high debt-to-asset ratios. The debt-to-asset ratio of farmers 44 years of age or younger is 10 percentage points above the national average.**

Table 2. Agricultural Debt-to-Asset Ratios by Region and Age Group Estimated from Farm Journal Survey.

	Age					All Age Groups
	Under 35	35-44	45-54	55-64	Over 65	
Region	D/A	D/A	D/A	D/A	D/A	D/A
Central	52.1	45.4	38.0	22.5	11.0	34.3
West	31.2	29.6	22.1	25.8	16.7	25.2
South	20.8	37.1	20.8	21.0	4.0	19.7
East	51.4	26.4	21.3	10.7	8.5	20.3
Weighted National Average	35.9	37.3	26.9	22.4	7.4	26.1

Source: R.W. Jolly and D.G. Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report #8-85, Iowa State University, July 1985.

Net Farm Income Prospects

The FAPRI agricultural sector models have been used during 1985 to evaluate projected outcomes for U.S. agriculture under proposals of the Administration and members of Congress for the 1985 Food and Agricultural Bill. These included options ranging from high price supports with mandatory supply controls to virtual elimination of price and income support programs (FAPRI Staff Reports Nos. 1-85, 3-85, 5-85 and 7-85). In general, the FAPRI farm policy analyses do not paint a bright picture for U.S. agriculture. These findings show a substantial excess capacity situation in U.S. agriculture at current loan rates, indicating that high government costs are required to maintain net farm incomes near 1985 levels.

Projected Debt Discharge and Loan Loss

Estimates of the level of asset and debt liquidation required to achieve short term financial stability are reported by Jolly and Doye. The threshold criterion chosen was that the farm businesses be able to service outstanding debt. Allowances for capital replacement and risk were not included. In addition, this analysis estimated the likely loan losses as well as the principal and interest shortfalls that would occur under a range of economic conditions.

Major results from the projected financial analysis for U.S. farm firms are provided in Tables 3 and 4. Table 3 presents estimates of the volume of assets and debt that would have to be liquidated for the remaining debt to be serviced fully. The cash rate of return expresses net cash income as a percentage of the value of gross assets owned by the operator. The capital recovery rate measures the

cash proceeds available for debt reduction following liquidation of a capital asset. The recovery rate reflects both transaction costs and declines in asset market prices since January 1, 1985. Estimates of operators selling out were obtained by assuming that operators go out of business when they have a zero or negative equity position after all of their assets have been liquidated to retire existing debt. Debt charged off reflects debt remaining after liquidating all assets of these farmers. These charge-offs are losses that must be absorbed by agricultural lenders and other creditors.

Interest and principal shortfalls were estimated at current debt and asset levels (Table 4). The "lower income" case is suggested by one FAPRI option in which the projected net farm income stream ranges from $14-21 billion. The "current income" case corresponds to another FAPRI option where the projected income stream ranges from $21-27 billion. The "improved income" case reflects a net farm income in the $30-35 billion range, exceeding that expected under any likely 1985 Farm Bill option.

From Table 3, the major conclusions are:

- **Approximately one-half of the outstanding farm debt cannot be fully serviced at current income and rates of interest. This figure increases to two-thirds in the lower income case.**

- **Annual principal and interest shortfalls from farm owner-operators are estimated at $2 to $9 billion over the four-year evaluation depending on farm income levels and interest rates.**

Table 3. Annual Interest and Principal Payment Shortfalls with Current Debt and Asset Levels, United States.

	Current Income[1/]	Lower Income[2/]	Improved Income[3/]
Interest ($ billion)	1.12	3.22	0.26
Principal ($ billion)	3.68	5.64	1.89
Total ($ billion)	4.80	8.86	2.15
% debt not fully serviced	52.9	65.3	29.5
% debt with interest not fully paid	21.7	44.5	7.8

[1/] Cash returns of 7.5 percent on capital, mean interest rate of 10 percent.
[2/] Cash returns of 6.5 percent, interest rate of 12 percent.
[3/] Cash returns of 8.5 percent, interest of 8 percent.

From Table 4, the major conclusions are:

- **Seven to seventeen percent of commercial agricultural assets in the United States will need to be liquidated in order to service the remaining outstanding debt; this is a**

liquidation rate three to four times the volume historically flowing through farm asset markets.

- **For the more likely economic conditions evaluated, approximately 4 to 8 percent of the existing farm debt could be discharged by liquidated farm operations, respresenting a loss of $10 to $20 billion to all agricultural creditors.**

Table 4. Estimated Asset Liquidation Required to Service Remaining Debt, United States.

	Current Income[1/]	Lower Income[2/]	Improved Income[3/]
	%	%	%
Assets liquidated	9.9	16.8	6.6
Debt liquidated	34.0	48.0	25.6
Debt charged-off	3.9	8.5	2.1
Operators selling out	8.1	14.6	5.2

1/ Cash returns of 7.5 percent on capital, capital recovery rate of 85 percent.
2/ Cash returns of 6.5 percent, capital recovery rate of 65 percent.
3/ Cash returns of 8.5 percent, capital recovery rate of 100 percent.

Even under current farm income conditions, loan losses could be significant. If farm income falls, as projected under the lower income case, farm financial conditions deteriorate and loan losses increase substantially. This serious potential loss to the financial and agribusiness sectors stimulated interest in the WEFA study of macroeconomic impacts of the financial crisis in U.S. agriculture.

Economy-Wide Impacts

The macroeconomic effects of the agricultural loan default were estimated using the WEFA Long-Term Model of the U.S. economy. The Federal Reserve Board, the Administration, and the U.S. Congress are assumed to intervene as loan defaults occur to insure the stability of the U.S. financial system. However, this intervention was assumed to be reactive rather than preemptive; actions responding to loan defaults and actual or imminent failures of affected financial institutions. Preemptive actions, on the other hand, could reduce or eliminate the estimated negative macroeconomic repercussions of the agricultural sector loan default.

The main direct macroeconomic effect of agricultural sector loan defaults would be an increase in short-term private interest rates resulting from the public's perception of substantially higher risks associated with financial asset holdings. This perception of increased risk would occur despite prompt action by the financial authorities, as was for the Continental Illinois National Bank. Despite FDIC guarantees for all deposits, outflows became unduly large because of the inherent unease (perceived risk increases) associated with keeping deposits in a potentially failing bank. Although agricultural debt is dispersed among

many creditors, the impact of large and widespread defaults on commercial banks and the Farm Credit System is expected to be sufficient to affect national financial markets. This seems reasonable, since deregulation has closely integrated financial markets irrespective of spatial dispersion.

The farm loan defaults have two direct impacts on the U.S. economy:

- **Higher short-term interest rates due to the increased public perception of financial asset risk.**

- **Higher interest rate risk premiums in the agricultural credit market, reflecting the high rate of agricultural sector loan default.**

The evaluations of impacts of the farm financial crisis were conducted under the four scenarios defined in Table 5. Programs which maintained income at approximately current levels and lower income options were evaluated together with the Jolly/Doye results yielding differing assumptions on the total loan loss. The extreme case or high-loss assumes no income maintenance programs and no financial assistance programs. The scenario with the lowest loan loss presumes income maintenance programs continue at current levels and preemptive financial assistance programs.

The total losses were distributed across the years 1985-88 using the FAPRI net farm income estimates. Potential loan losses are higher under the low income option, due to lower debt service. Short-term interest rates are expected to respond strongly to the large loan losses in 1987. Specifically:

- **The public loses confidence in the private financial sector due to loan defaults, leading to a run-up in private short-term interest rates, peaking in 1987 when the loan default rate is highest.**

- **Longer-term commercial bond rates rise by more moderate amounts than the private short-term rates but remain above baseline levels for a longer period of time.**

The major economy-wide impacts are caused by these short-term interest rate movements -- 75 to 125 basis points for loan losses in the "middle range" of $20 to $25 billion compared with 25 basis points when loan losses are reduced to $10 billion.

Table 5. Financial Impacts of Agricultural Sector Loan Losses Under Four Scenarios.

Program, Loan Loss and Interest Rate Effects	Year 1985	1986	1987	1988
Hard Landing (Low Income Levels)				
Large Loss ($50 billion, No Financial Assist)				
Loss Pattern (Billions $)	2	10	33	5
Short-Term Rate Increase (Basis Points)*	10	60	275	125
Medium Loss ($25 billion, With Financial Assist)				
Loss Pattern (Billions $)	2	4	16.5	2.5
Short-Term Rate Increase (Basis Points)*	10	25	125	75
Soft Landing (Current Income Levels)				
Medium Loss ($20 billion, No Financial Assist)				
Loss Pattern (Billions $)	2	4	12	2
Short-Term Rate Increase (Basis Points)*	10	20	75	40
Small Loss ($10 billion, With Financial Assist)				
Loss Pattern (Billion $)	2	2	5	1
Short-Term Rate Increase (Basis Points)*	10	10	25	10

*This is the increase for the private short-term (6 month commercial paper) rate. Government sector interest rates were unchanged between the default scenarios and the baselines.

Results of the Wharton evaluation for the middle range of loan losses ($20 to $25 billion), relative to the baseline outlook, for the federal debt, employment, and gross national product, respectively, are as follows (see Table 6):

- **By 1993, the federal debt will be $13.7 to $21.5 billion larger.**

- **In 1989 between 175,000 and 275,000 jobs will be lost in the entire economy.**

- **In constant 1985 dollars, Gross National Product will be reduced by $8.6 to $13.7 billion in 1989. The cumulative losses in real GNP over the 1985-93 period are predicted to be $30 to $49 billion.**

Table 6. Key Macroeconomic Impacts of Agricultural Sector Loan Losses.

	Low Income		Current Income	
	No Assist	Assist	No Assist	Assist
Economic Variable	$50 billion	$25 billion	$20 billion	$10 billion
Federal Debt Increase (Billion $, 1993)	$42.2	$21.5	$13.7	$5.1
Real GNP Decrease (Billion 1985$, 1985-93)	-$96.7	-$49.0	-$30.9	-$12.2
Employment Decrease (Thousands, 1989)	-560.	-275.	-175.	-64.

These impacts in Table 6 are compared in with those generated by higher and lower loan loss assumptions. The comparisons suggest a trade-off between the costs of income maintenance and financial assistance programs and the consequences for the economy of ignoring one or both of these preemptive measures.

Conclusions

The analysis of this report seems to justify prompt consideration of financial policy initiatives. It is clear that substantial reductions in the current level of income support provided by farm programs would quickly exacerbate the current financial conditions in agriculture; and substantial increases in price and income supports for agriculture cannot solve the financial problem. The FAPRI sector analysis suggests that the current financial problems are transitional in nature. Thus, financial policy should attempt to facilitate this transition, without, however, providing discentives for adjustments that lie within the capability of farmers, lenders, or other private decision makers. That is, financial policy should focus on two major objectives: to buy time for asset and debt restructuring and to encourage investor activity. Ultimately, the financial policy choice for U.S. agriculture is a simple one: Is it more cost efficient, both in economic and human terms, to intervene and help the sector adjust to new economic conditions? Or should this adjustment be allowed to occur without the assistance of targeted financial program measures letting the impacts fall in and out of agriculture where they will?

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1985 AGRICULTURAL AND FOOD POLICY -- COMPARISONS BETWEEN EVOLVING DECISIONS AND PARTICIPANT PREFERENCES

Harold D. Guither and Robert G. F. Spitze*

Purposes

National surveys to find out the preferences of participants in the current development of agricultural and food policy were completed during 1984. During 1985, the final decision-making processes of the Executive and Congress have been underway to determine future policy when the 1981 Act expires.

Although current economic conditions that inevitably and significantly affect such policy have been changing rapidly, the survey responses still represent an important indicator of effective preferences of the interested parties. The purpose of this paper is to compare the primary direction revealed in preference surveys with the likely directions revealed in the 1985 policy taking shape as of early November, 1985. This paper does not aim to predict the final content of the policy nor evaluate the merits of the preferences or decisions tentatively made.

The National Surveys of Participants

During 1984, two nationwide surveys were taken to solicit the views of people and organizations vitally interested in the agricultural and food policy decisions that would be made in 1985. One focused on the leadership of national organizations, both farm and nonfarm, while the other focused on farmers in 17 states.

Preferences of National Leaders of Agricultural and Food Groups

A confidential survey was taken in September and October 1984, involving leadership of national groups known to be interested in, or already participating in the 1985 policy development. It included those likely to speak for or represent eight national groups including: farm organizations, agribusinesses, commodity promotion agencies, consumers, general interest organizations, state directors of agriculture, state ASCS directors, and agricultural policy economists [2].

The responses of the 452 leaders showed areas of consensus as well as diversity. They agreed that there should be public intervention policy focusing on many national issues. These included: public food assistance, farm credit, soil erosion, research and education, price and income policy, production control, and trade. However, there was little support for a prolonged continuation of the 1981 Act; they wanted some changes in that policy.

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The responses signaled no inclination to back away from the government intervention that has evolved for agriculture and food over the past 50 years. Also contrary to what sometimes is evident in the professional literature, the sample of agricultural policy economists did not suggest their support of an end to government involvement in the market.

As to specific provisions for the agricultural policy for 1985, the concurrence is strong but not unanimous. The leaders preferred that these programs be continued: price support loans, target prices, voluntary production control, food distribution at home and abroad at least at present levels, a grain reserve, export assistance, Farmers Home Administration credit, marketing orders, strong export embargo protection, and a payment limitation no lower than $50,000.

The leaders also preferred these changes: change the method for setting loan and target levels from a fixed to adjustable basis; institute cross compliance and increase funding for soil conservation; set a maximum as well as minimum grain reserve; and increase funding for research and education.

The leaders preferred that three long time programs be terminated: tobacco, peanuts, and sugar.

The leaders could not agree on several provisions: extend the $50,000 limit to payment in kind; continuing a wool program; combining the food assistance and commodity programs; the period of time to be covered in a new farm bill; and the discretion of the Secretary of Agriculture to set loan and target levels.

The national leaders revealed more consensus than may sometimes seem apparent from pronouncements, and it did not seem to follow an agricultural and non-agricultural dichotomy.

Preferences of Farmers

A survey among farmers was taken from March to June, 1984, by agricultural economists working in 17 states using identical questions [1]. The samples, drawn to be representative of farmers in each state, ranged from 1,000 to 3,000. The farmers in the 17 states sold half of the agricultural products marketed in the United States in 1982. Responses were received from 8,085 farmers.

Although the major part of the farm survey involved agricultural policy and program issues, one set of questions dealt with monetary and fiscal policies. Farmers showed more agreement on the need to balance the budget to reduce interest rates and reduce the debt burden on future generations than they did on many of the farm policy questions. The majority would also have been willing to see a cut in farm program expenditures if all other government programs were cut so that a balanced budget could be achieved.

Even though farmers were divided on the direction that commodity programs should take, they generally agreed on the instruments to carry out these policies. More farmers in 12 of the 17 states preferred voluntary programs over mandatory acreage reduction programs. Although sentiment for completely eliminating set aside price support and government storage programs was expressed by some producers, they were a minority. In general, there was a split among the farmers for: continuation of a voluntary program; establishment of a mandatory program in conjunction with a referendum; and elimination of price and income support with acreage control.

On specific program instruments, a majority of those surveyed were in favor of: continuing target prices and deficiency payments while keeping target prices about the same; continuing the farmer owned reserve but set a limit on the amount placed in the reserve based on a percentage of the previous year's use; requiring producers to follow approved soil conservation measures to qualify for price supports; giving more funds to those states with the most severe erosion problems; continuing the present Farmers Home Administration policy of not foreclosing until repayment efforts have failed; and giving the most benefits to smaller farms.

Although not quite a majority, the most frequent responses favored: continuing acreage diversion payments; setting loan rates for price supported commodities at a percentage of the 3 to 5 year average market price; future use of the payment-in-kind program if large stocks should appear; making no change in the $50,000 limit on direct payments; discontinuing the dairy diversion program in effect during 1984 and 1985; and keeping the food stamp expenditures about the same or decrease them.

On trade issues, farmers agreed on: matching export subsidies of our competitors; promoting bilateral trade agreements; providing more funds for food aid; strengthening the General Agreement on Tariffs and Trade; and expanding farmer-financed market development programs.

Comparison of Preferences with Tentative 1985 Policy Decisions

Final decisions have not been made as this paper is written in early October, but probable directions can be gleaned from decisions of the House, the Senate agriculture committee bill, and Administration statements. The House Agriculture Committee Bill (Report 99-271, part 1) was approved on September 10 and the House Bill (H.R. 2100) on October 8. Following the House action, the Secretary of Agriculture indicated that these decisions were substantially in line with what the Administration wanted in the final bill, perhaps with the exception of the dairy section. The Senate Agriculture Committee approved a bill (Report 99-145) on September 19, although it was above the budget resolution limit. It is being acted upon and revised in the Senate. Some difficult negotiating and compromising still lie ahead with the President, the full House and Senate, and in the conference committee. The policy process for agriculture and food in 1985 has been slow, erratic and sometimes contradictory.

Among the confounding forces affecting agricultural and food policy making have been the unpredictable, fast pace of surrounding economic conditions,

the financial crisis on the farm and its supporting input and marketing industries, the continued budget deficit, increasing trade deficit, the exchange value of the dollar, interest rates, and unemployment.

Although many economic, political, and social forces, in addition to the preferences of farmers and national interest group leaders, are affecting the 1985 policy decisions, those preferences, nevertheless, are an important determinant in our participatory, interest-oriented political system. The following comparisons identify the similarities and differences between those preferences expressed in 1984 and the directions of policy decisions made so far in 1985.

1. Budget deficit. The budget reconciliation of the House and Senate for the next three years projects a slow contraction of the current deficit. Agriculture, including credit and other farm related services, is in line to absorb a portion, approximately 20 percent of their current base line outlay budget, with a remaining projected average annual expenditures of $15.2 billion. Farmers favored reduction in the budget deficit but they would probably have preferred a faster deficit reduction. They also agreed to accept reduction in the agriculture budget only if all other programs were reduced in at least the same proportion.

2. Intervention in agriculture and food markets. Government policy for food distribution, trade, prices and income, production control, credit, and conservation is likely to be maintained at near current levels with some changes in methods. This trend is similar to the preferences of both farmers and national leaders.

3. Food distribution. Domestic food programs seem likely to continue at about present levels and foreign food aid at equal or slightly higher expenditures. This policy is similar to preferences of both the national leaders and farmers, with the rise in foreign food being responsive to strong preferences for export expansion.

4. Grain reserve. A grain reserve seems likely to be continued, with a possible maximum as well as minimum amount being set. This is similar to preferences of both farmers and national leaders.

5. Program termination. There appears little likelihood of termination of any commodity program. This is similar to the preferences of national leaders, except a majority of the groups of leaders favored termination of the programs for tobacco, peanuts, and sugar.

6. Production control. Voluntary production control, with a variety of inducements, will likely be continued for the major crops. This preference is in line with views of the national leaders and farmers compared with their views on mandatory programs or complete repeal.

7. Target prices. Target prices will likely be continued at 1985 levels for at least one and possibly two years, and then a gradual reduction is likely. Farmers preferred to hold target prices steady while the national leaders preferred flexibility. Although both groups preferred the

payment limitation to be set no lower than at present, the decision on this issue remains uncertain. The level of target prices and payment limitation may be the issues of a final compromise to achieve budget reductions and approval of a bill.

8. Price supports. Price supports are likely to be continued for commodities now covered. Reductions in loan rates will occur gradually, adjusting to a percentage of a 5 year moving average market price with the high and low years excluded. This is similar to views of both farmers and national leaders except no preference was expressed for a limit on the adjustment of loan rates. A "market loan" concept may be added as an option in the final bill, but it was not a part of the surveys.

9. Discretion of the Secretary to set target prices and loan rates. Congress has tended to limit the degree of discretion the Secretary may use in implementing price support programs. The preferences of the national leaders showed no consensus for changing present discretion, which appears likely to continue. Farmers seemed to distrust the present system of policy implementation and many would prefer a program run by producers or an independent board or commission.

10. Soil conservation. Two major new soil conservation provisions are likely. These include a conservation reserve of 20 to 30 million acres of highly erodible cropland. This program would involve contracts of around 10 years on a bid basis. A sodbuster provision can be expected that would deny program benefits to farm operators who start farming highly erodible land. These measures are similar to the preferences of both farmers and national leaders.

11. Export assistance. Additional measures to subsidize exports, expand food aid, promote market development, and facilitate export credit are included in both House and Senate bills. National leaders and farmers supported strongly this expansion. A strong export embargo protection provision is likely to be continued in line with preferences from both surveys.

12. Credit assistance. Continued credit assistance through Farmers Home Administration appears certain. The nature of assistance for the Farm Credit System and other lending institutions remains an open question but some form of assistance seems likely. These measures would appear to be in line with preferences of both farmers and national leaders.

13. Research and education funding. Although farmers and national leaders both preferred increased public funding for agricultural research and education, funding beyond current rates does not seem likely in the 1985 policy.

14. National Agricultural Policy Commission. Both House and Senate bills include a provision for a national agricultural policy commission. The farmer survey showed that farmers would support a study of how policy is developed, implemented and what policies are needed in the future.

In Summary

Preferences about many possible provisions for 1985 agricultural and food policy were obtained in 1984 from primary surveys of farmers in 17 states and 452 national leaders of groups with interests in such policy. Even though many final decisions are yet to be made, some probable policy directions and provisions can be anticipated.

When the preferences of farmers and national leaders are compared to these probable policy decisions, a large degree of similarity can be discerned. However, much negotiating and compromising remains and these concurrences can not be taken as either definitive relationships or as predictions of future policy.

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AGRICULTURAL POLICY AND MARKET PRICING
by
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"Virtually every group or individual concerned with United States farm policy is dissatisfied with some or all of it. Persons not intimately concerned with farm policy find it difficult to understand the basis for its continuation, given this widespread dissatisfaction. Some are prone to believe that it is continued via some capricious recurring mistake in the process of democratic government." Hathaway, Dale E., 1963.(1)

The above quote seems appropriate as the introduction to a commentary on agricultural policy research in the mid 1980's, given the expected outcome of the 1985 Farm Bill. That is, the Congressional and Administrative actions to date seem to be unable to move toward either a free market or, on the other hand, to sharply restrict the market. Sharp changes in program direction apparently were not the will of Congress in 1985.

The 1985 Act, like those before it is, or will be when passed, a statement for the short term future of farm income support programs and the agricultural sector. It says little that provides guidance as to the longer run policy intent of Congress or the Administration. Before the print on this bill is dry, or perhaps even set, we are re-evaluating the potential effects of it's provisions. In the process, we are discovering that, although it is more flexible than the 1981 Act, it still holds prices above world market levels and provides for an income transfer to producers of supported commodities. In order to achieve consensus, Congress allowed the Bill (Act) to remain ambiguous relative to it's stated objectives and potential economic impact. And, although providing for the appearance of flexibility, Congress constrained the actions that could be taken to bring the provisions into line with the market.

Effecting a transition from a level of resource use determined by high subsidies to resource use determined by "free" market prices appears to require a set of programs that will allow clear transmission of long term price signals to markets while providing for gradual resource adjustment based on those signals. Identification of a potential set of such programs is the subject of the following sections of this paper.

Fundamental Disagreement Among Groups

Perhaps no other farm bill was the subject of so many conferences, meetings, and forums; and few such Acts have provided such mixed signals to commodity producers. Part of the problem is that communications about the economics of subsidy and stabilization programs are based on sets of assumptions about market behavior. These assumptions are often left unspecified and they are

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This paper represents only the views of the author and does not represent the policy of the United States Department of Agriculture.

often untested. Persons receiving the communications frequently operate from different and perhaps conflicting sets of assumptions. For example, one group assumes that agriculture is competitive and adjustment to equilibrium would be relatively quick and painless. They believe that the market would maintain equilibrium once adjustments had been made. This group holds and attests to a received doctrine that, if current programs were removed and excess stocks were eliminated, the disequilibrium problem would be solved. From that perspective, policies (programs) can be of a short run nature directed at counteracting short run symptoms. Their conceptual basis for protecting farm income by establishing a price floor, without the use of long term acreage programs, must rest on the premise that upward and downward movement in market supplies will extract us from temporary excess capacity problems. Demand must be large enough to result in an equilibrium solution above the floor level most of the time so that stocks will not accumulate.

Another group assumes that, in addition to the normal variability from weather, the market suffers from a large and chronic disequilibrium and the adjustment toward equilibrium would be painful. Therefore, they see the need for a continuing strong presence of government in agricultural markets to shorten supplies and provide income transfers to producers. That is, they see government as the corrective factor in a case of market failure which results in low incomes to producers.

The Basic Policy Has Been Static

Since the 1930's, U.S. agricultural policy has been static but the commodity programs used to implement the policy have tended to be short run and evolutionary. It seems that the true intent of the policy of the past fifty years has been to keep farm income above the level that it would have been in a free and unregulated market. It made little difference which of the foregoing views was held by members of Congress or the Administration in power because the short run condition was a continuing surplus and the only politically acceptable option at the time was to provide for an income transfer. The differences among the various Acts since 1933 were not over whether the problem was chronic or temporary but over the magnitude of the income transfer and the source of the funds -- taxpayers or consumers.

Evolutionary Programs

Although the policy intent was to produce an income transfer, the means to achieve the transfer evolved: from the simple price floors set by nonrecourse loans with their rate pegged to parity; to multi-year nonrecourse loans (the Farmer Owned Reserve), target prices and deficiency payments and voluntary unpaid acreage reduction programs. The program evolution occurred as Congress recognized that setting prices above free market levels, to raise income, leads to excess production and stock

accumulation. During the 1950's, Congress attempted to lessen the difference between the price floor and and the market price in the hope of reducing stock accumulations which were sharply increasing the cost of the programs and becoming an embarrassment. However, they were unsuccessful, the loan rate remained above the market price and stocks accumulated.

Only when long term acreage reduction programs were introduced in the 1960's, along with continuing downward adjustment in real price supports, did the income support occur without massive stock accumulations. During the late 1960's a forthright attempt was made to deal with the income transfer issue by lowering loan rates and establishing a fixed income transfer payment per unit of output. This, however, led to criticism concerning the highly visible and growing income payment.

For a brief period in the early 1970's, a combination of acreage reduction programs, drought, corn blight, dollar devaluations, export subsidies, oil embargos and importer policy changes shocked the market violently. The result was that income support programs were not effective for the first time since World War II. Supplies were short and prices rose dramatically above support levels.

By the late 1970's, many were convinced that a new economic order was upon us and a Malthusian solution was on the horizon. Scarcity (rising prices) seemed to suggest that commodity loan rates would only be needed as a floor under extreme conditions. And, given the sharp rise in prices it appeared that Congress could afford to be generous in setting a high price floor. It seemed that the market would, more often than not, clear above support levels.

In the 1980's, rising interest rates, a rising value of the dollar, rising world production, and increasing debt in importing nations resulted in a shift from scarcity to surplus. By 1982, it was clear that the level of income support being provided by the fixed levels of the 1981 Act was larger than either Congress or the Administration felt was reasonable to incorporate in an already deficit budget. And, the accumulation of stocks as a result of forfeiture to the CCC showed no sign of ending. The largest annual acreage diversion program in the fifty years of farm programs was instituted in 1983 with a massive payment-in-kind (PIK) program intended to reduce stocks and prevent further stock accumulations. Yet, even with a drought in 1983, in addition to PIK, stocks at the end of 1984 had again accumulated to unacceptably high levels as measured by the trigger levels for acreage reduction programs established by the Agriculture Programs Adjustment Act of 1984.

A Restatement of the Problem

In 1984, Just and Rausser developed an argument for conditional agricultural policy that would allow for flexibility in program parameters based on

changes in market conditions.(2) They summarize the rationale for government involvement [in agriculture], given the general purpose of the enabling legislation, as, inter alia:(1) farmers are in some sense an economically hard pressed -- if not deprived -- group; (2)the principle reason for farmers economic status is their relatively disadvantaged position in the market place; and (3)in the absence of governmental intervention, there would be an intolerable degree of instability in commodity markets affecting not only farmers but also consumers of food and fiber.

However, Just and Rausser dismiss the first and second rationales and conclude that risk and uncertainty are the most pervasive rationale for an active U.S. agricultural policy. They, therefore, implicitly accept the premise that the agriculture policy problem is a short run problem that can be brought to a market equilibrium solution by short run intervention. They recommend that because market conditions are changing "conditional policies" that follow a formal specification for change in policy instrument or instrument levels should be put in place to avoid policy disequilibrium.

They argue that current conditions are the result of a policy induced disequilibrium and short run adjustments with conditional policy would be appropriate as a sort of boundary on the market. They state that "...specification of conditional policies should be based on factors that signal crises or major policy disequilibria. ...triggering factors should include Treasury cost or excessive government stocks in addition to farm price and income levels. ... set-aside requirements should be keyed to the level of accumulated reserves. ...loan rates could be tied directly to reserve stock levels".

Many economists might agree that a market oriented solution with adjustable price and stocks boundaries would bring the cost of programs under control and still provide farmers protection against disasters. However, although the arguments sound reasonable because they are arguments for moderation and adjustment, they fall short of providing a program rationale that would guide the market to provide clear long term price signals, which "free market" advocates argue should guide resource use. The Just and Rausser conditional policy approach is a pragmatic manipulation of targets and triggers in an attempt to anticipate the set of stochastic events which will shock the market. Because of its flexibility, it may be a little less likely to create major economic disequilibria than the current set of policies and programs. But, the suggested programs continue to be anticipatory and attempt to bring about stability by correcting for economic shocks on an ex ante basis.

An Alternative to Anticipatory Policy

As an alternative, let us consider two basic and fundamental problems in agricultural commodity markets: (1) a chronic disequilibrium due to the heterogeneous structure of commodity subsectors and the inelasticity of

demand; and (2) a random normally distributed yield shock caused by weather, which is unrelated to the economics of production in the market. A third problem, which is critical for policy development but not fundamental in the sense of being an inherent condition, is that past and current programs have been built to attempt to anticipate shocks to the market and have met with little success. More often than not, the result has been that the programs have exacerbated the shock, creating an additional policy-induced disequilibrium.

In regard to the first problem the critical issue is whether or not a market oriented agriculture will, or can, arrive at a stable market clearing equilibrium that exactly compensates the resources used in production. The conditions required for such an equilibrium are those of perfect competition including homogeneity of production units, freedom of entry and exit, divisibility of resources, and perfect knowledge. Given the lack of these conditions, particularly the lack of homogeneity of technology among production units, the implication is that the production sector will be in a state of chronic disequilibrium even if prices are not supported. There is no unique equilibrium solution. As lower cost firms expand output, higher cost firms will be driven out of the sector as prices are driven down.

Any policy that sets an anticipatory price floor above the market clearing level, in an effort to protect income, will result in excess production and stock accumulation if production controls are not instituted. In a market with an inelastic demand, higher prices result in higher total revenue. With higher total revenue more capital will be invested and more capacity will be brought into production, whether in the United States or elsewhere. If the higher price is not the result of an expansion in real demand, but the result of program restrictions, then excess capacity will result.

In the 1930's our excess capacity problem was in large part due to the heterogeneity and inelasticity problem coupled with global depression. After fifty years of price supports and supply control our excess capacity is in large part due to income support carried out through price support programs. Our production at supported prices far exceeds the quantity that is being absorbed in the market place.

Since 1930 some 4 million farms have disappeared but the total area of land under cultivation has remained unchanged. The programs in existence during this period have prevented the decapitalization of agriculture by holding the income stream high and allowing asset prices to remain inflated. These same programs have, however, facilitated the depopulation of agriculture by allowing those exiting to take funds with them to the nonfarm sector by selling their operations to those remaining or to new entrants. Their exodus from the sector was inevitable, as is the exodus of many of those who are currently farming. At question is the process of the exit. Will it be abrupt, as the result of bankruptcies and foreclosures, or will it be less destructive?

Since the 1930's, Congress and the Executive branch have been unwilling to allow the process of foreclosure and bankruptcy to decapitalize agriculture and bring about the exit of resources. By subsidizing the sector a significant gap was created between the "free" market level and the subsidized level of prices and resource values. Moving abruptly to a free market from this highly subsidized position would likely result in a rapid decapitalization of the sector, with sharp declines in asset values. This would result in considerable hardship for asset owners and creditors.

Identification of Long Run Prices

Effecting a transition from a level of resource use determined by high subsidies to resource use determined by "free" market prices appears to require a set of programs that will allow clear transmission of long term price signals to markets and gradual resource adjustment based on those signals.

The most critical factor confounding long term price discovery is, in the view of this author, the effect of weather on the market. Yield changes due to weather factors are non market forces. No resources are committed to get higher production and no resources are diverted to reduce output; thus, the weather-induced difference between the expected and the actual yield has nothing to do with the resources committed. Yet, because the market allocates realized output rather than expected output the impact of the yield shock affects all output. Because demand is inelastic, the price effect is substantially greater than the yield change. Because we have never been able to anticipate the actual yield of a crop before the crop was planted, we plant on the basis of expectations and our expectations are often based on mean or trend values. Historically, it has been the practice, because of the inability to forecast crop yields, to base policy on normal or expected yield and establish acreage diversion or set-aside programs based on these expectations and the level of stocks. Inevitably the acreage program turned out to be larger or smaller than needed.

The Agricultural Programs Adjustment Act of 1984 attempted to deal with the problem of stock accumulation by establishing trigger stock levels that would result in the implementation of acreage reduction programs if expected end of season stocks were higher than the trigger level. Analysis of one variation of the 1984 program, under conditions which maintain a wide spread between loan rates and release prices, shows that it is likely to result in a cycle of stock accumulation followed by acreage diversion with highly unstable prices and very mixed market signals being sent to producers.(3) The problem with the 1984 program arises because stock levels are used as an anticipatory trigger to cause the initiation of an acreage reduction program before it is possible to determine the amount that will be produced. Because yields are random and normally distributed there is as much chance of reinforcing a yield change as offsetting it. If the acreage reduction program is successful in reducing stocks then no program would be put in place for the next crop and it is likely that stocks would accumulate especially if prices are supported.

A Reactive Program

A possible method of dealing with the yield variability and stock accumulation problem, to allow for long run price discovery, is to develop a program that reacts to domestic yield shocks rather than attempting to anticipate such shocks. Such a program could allow the CCC to offer to buy or make loans on only the quantity of the crop that was a surplus due to yield variation. That is, the excess yield (over trend yield levels) times acreage harvested. This excess over trend is the unplanned and unexpected portion of the crop. If appropriate price signals are to be transmitted, the planned portion of the crop should be marketed. Removal of more than the excess yield over trend would raise prices above those that would prevail with planned production and stimulate additional investment. If government stock acquisitions were tied to excess yields then stock dispersals could be tied to yield deficits. For example, if yield were below trend, the CCC could offer to sell an amount equal to the yield shortfall times acreage harvested. Assuming that yield deviations are a random normally distributed variable, acquisitions and dispersals should be offsetting over time. Such a procedure would allow economic forces to be clearly evident in the market price. The market uncertainty would be economic and political uncertainty not domestic yield uncertainty. Thus, the government policy with regard to stocks would be to reduce uncertainty rather than enhance price. True supply and demand shifts would become more clearly translated into prices that would signal the need for more or less resources in production.

The above program to offset the impact of domestic yield variability would not address the problem of chronic disequilibrium, which results from heterogeneity or the problem of excess capacity due to past price support policies. The program would, however, provide supply stability so that real shifts in supply or demand would be reflected in market determined prices.

If a smooth transition from subsidized to market pricing was to be facilitated by the government, a method of providing a declining level of income support without direct price intervention would be required. As an example, a long term acreage reduction program that had a range of termination dates from 5 to 15 years. By reducing supply without establishing a floor price, the market would still establish price as constrained by the acreage reduction program only. Income support would be temporary and declining over time, as a deliberate policy. Direct payments would be confined to land rental under the acreage reduction program.

In summary, current programs distort market pricing, result in continuous stock accumulation and, because they are anticipatory, are as likely to exacerbate as ameliorate shocks to the market. On the other hand a reactive program that allowed government acquisition of only the excess yield over trend and supported income through long term acreage reduction without establishing a price floor could bring about a transition to long run free market pricing with minimal shock to domestic markets.

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1985 Farm Bill: Current Law vs. House Bill

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On October 8 the House passed their version of the 1985 Farm Bill, which included 20 titles covering each of the major commodities, trade, credit, conservation, food stamps, and other miscellaneous programs. A side-by-side comparison of current law and the House bill for each of the titles is provided. Target prices, deficiency payment rates, loan levels, program acreage, farmer-owned reserve, base acreage and other provisions are discussed for wheat, feed grains, soybeans, cotton, rice, peanuts, sugar, and wool and mohair. Dairy price support and diversion programs are highlighted.

The House bill contains some new directions for agricultural policy. Loan rates for wheat, feed grains, cotton and rice would be based on 5-year moving market averages with the high and low years removed. Reductions in the loan rate, however, would be limited to 5 percent from the previous year, unless the "Findley amendment" applied. Target prices would be frozen through crop year 1987. After 1987, they would be related to the moving average prices but could not be reduced unless production costs declined. The soybean, peanut, sugar, honey, and wool and mohair programs would remain essentially the same. The dairy title, which contains a formula to compute the price support for milk, would require the Secretary to implement a dairy diversion program with a whole-herd buy out option.

Environmental concerns are reflected in the creation of a conservation reserve of up to 20 million acres. Through the sodbuster and swampbuster provisions, producers who cultivate highly erodible land or wetland would be ineligible for Federal program benefits. Refinements in the credit title would direct FmHA resoures to family sized farms.

The Senate passed their version of the 1985 Farm Bill on November 23 and sent it on to conference. A three-page summary of their bill follows the spreadsheet comparison. Target prices for the major commodities would be frozen for crop year 1986. The Secretary would be required to conduct a producer poll to determine support for a referendum and national marketing quota for the 1987-89 wheat crops. Target prices in the absence of a quota would depend on a farm's level of production, annual gross agricultural sales, and selected acreage reduction. Soybean producers would have an option for the 1985 crop to either receive $35 for each acre harvested or $1.00 per bushel harvested in lieu of forfeiting sovbeans to the Commodity Credit Corporation (CCC). Sunflower producers would also receive payment for their 1985 crop. The Senate did not include a dairy diversion program. Price supports for milk would be adjusted on the basis of net CCC purchases.

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CURRENT AND HOUSE FARM BILLS

			CURRENT LAW	HOUSE (H.R. 2100)
		Length of authorization	Crop year 1985	Crop years 1986-1990
Title I	Sugar	Loan rate	Sugarcane $.18/lbs. in 1985; Sugarbeet rate set relative to sugarcane rate	Sugarcane: supported by nonrecourse loans at a minimum rate of $.18/lbs; Sugar beets rate set by the Secretary relative to sugarcane; Secretary makes annual adjusments to the support rate based on cost of production & inflation during the two preceding crop years
	Honey	Loan rate	Set at between 60-90% of parity; In 1985 the rate was $.683/lbs. (60% parity)	Extend current law except that nonrecourse loans are limited to $250,000 (higher amounts are recourse)
Title II	Dairy	Price support	Milk supported through purchases of products at rate equivalent to $12.60/cwt. of milk; On 4/1/85, a $.50/cwt. reduction authorized if for the next 12 months, CCC net purchases are greater than 6 milllion pounds(Action taken); On 7/1/85, a $.50/cwt. reduction authorized if for the next 12 months, CCC net purchases (total purchases minus sales under sec. 407 for unresticted use) are greater than 5 milllion pounds(Action taken); On 7/1/85, a $.50/cwt. increased authorized if for the next 12 months, CCC net purchases are less than or equal to 5 milllion pounds(Increase not taken)	Milk supported through purchases of products at rate equivalent to $8.83/cwt. * adjusted cost of production (COP) index where the adjusted COP index = COP index - (COP index * milk productivity factor), the COP index = COP for year ending 6/30 divided by base COP 1976-78 (cal. yr.), & the milk productivity factor = 0.2 percent * (avg. lbs. milk per cow for year ending 6/30) minus 11,101 lbs.. Adjustments to support rate based on estimated 12-month level of net CCC purchases beginning each 9/1 as follows:

Government purchases	Not less than	But more than
bil. lbs.	percent	percent
under 1.0	107.8	Sec. dis.
1.0-1.99	105.2	107.8
2.0-2.99	102.6	105.2
3.0-3.99	100.0	102.6
4.0-4.99	97.4	100.0
5.0-5.99	94.8	97.4
6.0-6.99	92.2	94.8
over 7.00	92.2	92.2

		CURRENT LAW	HOUSE (H.R. 2100)
Dairy			
	Diversion	Currently no provision; A program, authorized from 1/84-3/85, allowed producers who voluntarily reduce their production by 5-30% below base period production to receive diversion payments of $10/cwt.	A program must be offered if estimated CCC net purchases for the next 12 months are greater than 7 bil. lbs., or may be offered if estimated CCC net purchases for the next 12 months are greater than 5 bil. lbs. but less than 7; Producers, who elect to to reduce production by 5-30% below their production based on year ended 6/30, will be paid $10/cwt.; Bids for whole-herd reductions will be considered; When the dairy diversion program is in effect, the producer assessment is the price per cwt. that when multiplied by quantity of milk marketed by all producers is equal to government cost of purchases (not including sec.407 sales) greater than 5 bil.lbs. + diversion payments + in FY 1986 & 1987, $50 mil. annually that is put into a research trust fund; Excess funds, including interest, in any fiscal year are refunded on a pro rata basis; When purchases are less than 5 bil. lbs., producers will receive a refund equal to cost of purchasing 5 bil. lbs. minus (actual cost of purchases + funds deposited to dairy research trust fund + interest); Government must purchase 250 mil. lbs. of meat for domestic donations & must ensure that no more than 40% of the increase in dairy cattle marketings be marketed during the months of Oct.-Feb. & Sept. in each fiscal year & that the total increase in marketings be no more than 7% of the national dairy cow herd
	Indemnity	Authorized payments to producers for damage from nuclear radiation or fallout, pesticides, and/or other chemical or toxic substances	Extends current law through 9/30/90
	Military & veterans	Requires CCC to make dairy products available to military & veteran's hospitals at no charge through 12/31/85	Extends current law through 12/31/90
	Milk marketing orders & agreements	Authority to devise seasonal base-excess plans that encourage seasonal adjustments in milk production & to devise seasonal take-out plans expires December 31, 1985; Secretary required, when setting milk prices under marketing orders, to take into account farm income, milk productive capacity, & future needs	Extends current law through 1990 except that it authorizes payments to be made to milk handlers who provide sevices that are of marketwide benefit & requires the Secretary to increase differentials in several Federal marketing orders

		CURRENT LAW	HOUSE (H.R. 2100)
Dairy	Casein	No provision	Requires Secretary to conduct a study on impact of casein imports on dairy price support program; Requires CCC each year to sell one mil. lbs. of nonfat dry milk on a bid basis for the production of casein
	Research	No provision	Creates a National Dairy Research Endowment Institute, that collects $100 mil. over 2 years through producer assessments, to conduct research on nutrition, product development & promotion of milk & dairy products; Establishes a National Comm. on Dairy Policy to examine policies that prevent surplus production while preserving small/medium sized farms
Title III Wool and mohair	Incentive payment	Producer incentive payment is based on the difference between the incentive price and the price received by producers	Extends current law
Title IV Wheat	Target price	Congressional set minimum of $4.38/bu. for 1985	For 1986-1987, frozen at $4.38/bu.; For 1988-90, 110-125% of recent 5-year moving avg. of farm price, excluding high & low, but not les than 95% of last year's level but can only be lowered if previous year's cost of production for wheat is 5% lower
	Deficiency payment rate	It is equal to the amount by which the target price exceeds the higher of the 5 month weighted avg. farm price or the loan rate	Same as current law except that $.13/bu is subtracted if Sec. establishes an export certificate program; Payment rate is based on loan level prior to any Findley amendment adjustments1/; When acreage limitation program is in effect & if 50% of a producer's wheat base is planted, & if a producer devotes more than 5% of wheat permitted base acreage for conservation uses or nonprogram crops, then these acres above the 5% must be considered program acreage eligible for deficiency payments 1/ Findley amendment for wheat & feed grains: If avg. price in preceding year is less than or equal to 105% of the loan rate or if the calculated rate can be shown to hamper exports or result in excess stocks, the Sec. can lower it up to an additional 20%; Any futher deficiency payments that result are not subject to the $50,000 limit

		CURRENT LAW	HOUSE (H.R. 2100)
Wheat	Loan rate	Sec. has discretion to set rate with a $3.55/bu. minimum, unless avg. farm price of the previous year is less than or equal to 105% of loan rate, rate may be lowered up to 10%, but not below $3.00/bu.; Rate for 1985 is $3.30/bu.	For 1986-90, 75-85% of recent 5-year moving avg. of farm price, excluding high & low, but not less than 95% of last year's level unless the Findley amendment applies
	Loan repayment rate	Nonrecourse loan to be repaid at the original loan rate plus interest	Loans may be either recourse or nonrecourse at Sec. discretion; If nonrecourse loans: repaid at original loan rate plus interest; Sec. may waive interest if loan redemption value is less than principal & interest & if the waiver would yield a savings to Government; Loan volume per farm is equal to acreage planted for harvested × program yield; Recourse loan: repaid at the smaller of original loan rate or current State monthly, weekly, or daily farm market price adjusted for each county; Maximum term is 270 days; Total production is eligible for loan
	Acreage reduction(ARP)& paid land diversion (PLD)	In 1985, ARP- 20% & PLD- 10% with diversion payment rate fixed at $2.70/bu. & announcement by 8/15; Secretary has discretion to allow haying & grazing on APR land	For 1986, ARP- 20% & PLD- 10% for winter wheat(payment rate is $2.00/bu.) & ARP- 30% for spring wheat; For 1987-90 when beg. stocks exceed 800 mil. bu. an APR required of not less than 20% & an optional PLD or ARP in excess of 20%; Announcement by 5/1; Sec. shall permit, during a designated 8-mo. period, haying & grazing on APR, PLD, & set-aside land
	Farmer-owned reserve(FOR)/ food reserve	Maximum quantity in storage 700 mil.bu.; Food security wheat reserve of up to 147 mil.bu.; Release price discretionary; Sec. may allow early entry & waive interest; Restrictions placed on removal of commodities; Repayment of interest in case of default not required	Release price: the higher of target price or 140% of nonrecourse loan rate; FOR expanded & withdrawals resricted when stocks are less than 17% of total use of wheat with an upper limit of 30% of total use

			CURRENT LAW	HOUSE (H.R. 2100)
	Wheat			
		Base calculation	For 1985, avg. of 1983 & 1984 planted acreage	Crop acreage equal to 5-year mov. avg. of planted acreage plus acres idled under program plus underplanted acres devoted to conserving uses, a program crop not harvested or a nonprogram crop (except soybeans); Farm acreage equal to sum of acres planted, idled (including underplantings), summer fallow, & prevented crops of wheat, feed grains, rice, & cotton & planted acreage of soybeans; Producer may adjust one or more crop acreage bases by 20% of farm acreage base in 1986 or 10% in 1987 & afterwards
		Market quota & referendums	Suspended	For 1986-90, suspended
Title V	Feed grains			
		Target price	Congressional set minimum of $3.03/bu. for corn in 1985; Other feed grains set in relation to corn	For 1986-1987, frozen at $3.03/bu. for corn; For 1988-90, 110-125% of recent 5-year moving avg. of farm price, excluding high & low, but not less than 95% of last year's level but only can be lowered if previous year's cost of production for corn is 5% lower; Other feed grains set equivalent to corn
		Deficiency payment rate	It is equal to the amount by which the target price exceeds the higher of the 5-month weighted avg. farm price or the loan rate	Same as current law except that $.06/bu is subtracted if Sec. establishes an export certificate program; Payment rate is based on a loan level prior to any Findley amendment adjustments1/; When acreage limitation program is in effect & if 50% of a producer's feed grains base is planted, & if a producer devotes more than 5% of feed grain permitted base acreage for conservation uses or nonprogram crops, then these acres above the 5% must be considered program acreage

		CURRENT LAW	HOUSE (H.R. 2100)
Feed grains	Loan rate	Sec. has discretion to set limit with a minimum $2.55/bu. for corn, unless avg. farm price of the previous year is less than or equal to 105% of loan rate, rate may be lowered up to 10%, but not below $2.00/bu.; 1985 rate for corn is $2.55/bu.; Other feed grains set equivalent to corn	For 1986-90, 75-85% of recent 5-year moving avg. of farm price, excluding high & low, but not less than 95% of last year's level unless Findley amendment applies; Other feed grains set equivalent to corn
	Loan repayment rate	Nonrecourse loan to be paid at the original loan rate plus interest	Loans may be either recourse or nonrecourse at Sec. discretion; If nonrecourse loans: repaid at original loan rate plus interest Sec. may waive interest if loan redemption value is less than principal & interest & if the waiver would yield a savings to Government; Loan volume per farm is equal to acreage planted for harvested * program yield; Recourse loan: repaid at the smaller of original loan rate or current State monthly, weekly, or daily farm market price adjusted for each county; Maximum term is 27(days; Total production is eligible for loan
	Acreage reduction(ARP)& paid land diversion (PLD)	In 1985, ARP- 10% & PLD- 0%	For 1986 ARP- 20% except if fall seeding is prior to program announcement then PLD- 10% & ARP- 10%; For 1987-90 when beginning stocks exceed 1.1 bil. bu. of feed grains an ARP required of not less than 10% & an optional PLD in excess of 10%
	Farmer-owned reserve(FOR)	Maximum quantity in storage 1 bil. bu.; Release price discretionary; Secretary may allow early entry & waive interest; Restrictions placed on removal of commodities; Repayment of interest in case of default not required	Release price: higher of target price or 140% of nonrecourse loan rate; FOR expanded & withdrawals restricted when stocks are less than 7% of total use of feed grains with an upper limit of 15% of total use
	Base calculation	For 1985, avg. of 1983 & 1984 planted acreage	Crop acreage equal to 5-year mov. avg. of planted acreage plus acres idled under program plus underplanted acres devoted to conserving uses, a program crop not harveste(or a nonprogram crop (except soybeans); Farm acreage equal to sum of acres planted, idled (including underplantings), summer fallow, & prevented crops of wheat, feed grains, rice, & cotton & planted acreage of soybeans; Producer may adjust one or more crop acreage bases by 20% of farm acreage base in 1986 or 10% in 1987 & afterwards; Marketing year changed from 10/1 - 9/31 to 9/1 - 8/31

		CURRENT LAW	HOUSE (H.R. 2100)
Title VI Upland cotton			
	Target price	Congressional set minimum of $.81/lb.for 1985	For 1986-1987, frozen at $.81/lb.; For 1988-90 90% of most recent 3-year avg. total cost of production with a maximum reduction of 5% from last year's level if all producers' cost of production is 5% lower
	Deficiency payment rate	Deficiency payments are made on planted acres within the permited acres when an ARP in effect; Payment rate is based on difference between target price & the higher of the loan rate or the average price received by farmers during the first 5-months of the marketing year	Deficiency payments are made on planted acres within the permited acres, when an ARP in effect; Payment rate is based on difference between target price & the higher of the loan rate or the average price received by farmers during the first 5-months of the marketing year
	Loan rate	Lower of either 85% of avg. spot price of SLM 1-1/16" cotton during 3 yrs. of 5-year period ending 7/31 in year loan rate is announced, excluding high & low price years, or 90% of avg. adjusted price of 5 lowest priced growths (M 1-3/32") in Northern Europe during 15-week period beginning 7/1 in year loan rate is announced with a minimum rate of $.55/lb.; 1985 rate is set at $.573/lb.	Current law with the $.55/lb. minimum eliminated with a maximum reduction of 5% from last year's level; If Secretary determines rate would discourage exports or cause excessive stocks, rate may be reduced not less than 80% of computed rate2/; Any deficiency payments, resulted from this reduction or a loan rate below $.55/lb., are not subject to the payment limitation; Sec. must issue marketing certificates for CCC stocks to first handlers with a value of the difference between the loan rate & world price 2/ Findley amendment for upland cotton & rice: If the calculated rate can be shown to hamper exports or result in excess stocks, the Sec. can lower it up to an additional 20%; Any futher deficiency payments that result are not subject to the $50,000 limit

		CURRENT LAW	HOUSE (H.R. 2100)
Upland cotton	Acreage reduction(ARP)& paid land diversion (PLD)	In 1985, ARP- 20% & PLD- 10%;	Authority for ARP & PLD including PIK; When projected ending stocks exceed 1/3 of domestic use & exports, an ARP must be implemented with a 25% limititation; If insufficient, up to another 15% PIK diversion may be used; If CCC stocks are not available for PIK, cash can be used; Seperate $50,000 payment limit applies to cash & in kind diversion payments
	Base calculation	Preceding year's planted acreage plus considered planted acres or at the Secretary's discretion, the average of the previous two years' planted acres plus considered planted acres; For 1985, the average of 1983 & 1984	Crop acreage = planted acres, idle acres, & underplanted acres; Years used to compute crop year base: Crop year — Crop years 1986 — 1984 & 1985 1987 — 1984, 1985, & 1986 1988 — 1984, 1985, 1986, & 1987 1989 & after — preceding five years Farm acreage equal to sum of planted acres, idle program, summer fallow, & prevented crops of wheat, feed grains, rice, & cotton & planted acreage of soybeans; Producer may adjust one or more crop acreage base by 20% of farm acreage base in 1986 & 10% in 1987 & thereafter
Title Vll Rice	Target price	Congressional set minimum of $11.90/cwt. for 1985	For 1986-1987, frozen at $11.90/cwt.; For 1988-90, not less than 90% of most recent 3-year avg. total cost of production with a maximum reduction of 5% from last year's level if all producers' cost of production is 5% lower
	Deficiency payment	Deficiency payments are made on planted acres within the permited acres, when ARP in effect; Payment rate is based on difference between target price & the higher of the loan rate or the average price received by farmers during the first 5-months of the marketing year	Deficiency payments are made on planted acres within the permited acres if ARP is in effect; Payment rate is based on difference between target price & the higher of the loan rate or the average price received by farmers during the first 5-months of the marketing year

		CURRENT LAW	HOUSE (H.R. 2100)
Rice	Loan rate	Secretary discretionary with a $8.00/cwt. minimum	For 1986-90, 85% of recent 3-year average farm price; Rate cannot drop more than 5% of last year's level, unless the computed rate would discourage exports or cause excessive stocks, & then rate may be reduced not less than 80% of computed rate2/; Any deficiency payments resulting from this reduction are not subject to the payment limitation; To compensate rice buyers/exporters when world price is lower than rate, Sec. is directed to issue export cetificates redeemable for CCC stocks of rice or other CCC commodities
	Acreage reduction(ARP)& paid land diversion (PLD)	In 1985, ARP- 20% & PLD- 15%; Carryin — Diversion rate mil. cwt. — $/cwt. 25-34.9 — 2.70 35-42.4 — 3.25 42.5+ — 3.50	Authority for ARP & PLD including PIK; When projected ending stocks exceed 1/5 of domestic use & exports, an ARP must be implemented with a 25% limititation; If insufficient, up to 25% PIK diversion may be used; If CCC stocks are not available for PIK, cash can be used; Seperate $50,000 payment limit applies to cash & in kind diversion payments
	Base calculation	Preceding year's planted acreage plus considered planted acres or at the Secretary's discretion, the average of the previous 2 years' planted acres plus considered planted acres; For 1985, the average of 1983 & 1984	Crop acreage = planted acres, idle acres, & underplanted acres; Years used to compute cro year base: Crop year — Crop years 1986 — 1984 & 1985 1987 — 1984, 1985, & 1986 1988 — 1984, 1985, 1986, & 1987 1989 & after — preceding five years Farm acreage equal to sum of planted acres, idle program acres, summer fallow, & prevente crops of wheat, feed grains, rice, cotton, & planted acreage of soybeans; Producer may adjust one or more crop acreage base by 20% of farm acreage base in 1986 & 10% in 1987 & thereafter

		CURRENT LAW	HOUSE (H.R. 2100)
Title VIII Peanuts	Loan rate, target price, & quota	Two-tier price support system: quota peanuts ($559/ton) tied to COP, excluding land, with annual increases not to exceed 6% percent & additional peanuts ($148/ton) set by Sec. at a level that insures no CCC loss on sale; Acreage quotas suspended but poundage quotas continued (1.1 mil. tons); Penalties for illegally disposing of additional peanuts is 140% of loan rate for producers & 120% for handlers	Two tier price support system: quota & additional peanuts; Rate for quota peanuts for 1986 crop equal to 1985 rate adjusted for production costs & for 1987-90 based on previous year's rate adjusted for production costs with a 6% limit; Additional peanuts supported at a rate set by the Secretary; Poundage quota min. of 1.1 mil. tons; Penalty for illegally disposing of additional peanuts is 140% of quota loan rate for both producers & handlers; Two-third affirmation of producers required to continue program; Quota transfers not restricted within county, but transfers between counties are limited to states with a quota less than 10,000 tons
Title IX Soybeans	Loan rate	75% of recent 5-year moving average of farm price, excluding high & low, but not less than $5.02/bu; If avg. farm price of the previous year is less than or equal to 105% of loan rate, rate may be lowered up to 10%, but not below $4.50/bu.; Rate for 1985 is $5.02/bu.	75% of recent 5-year moving average of farm price, excluding high & low, but not less than $5.02/bu; If avg. farm price of the previous year is less than or equal to 105% of loan rate, rate may be lowered up to 10%, but not below $4.50/bu.; For 1986 only, if avg. farm price in 1985 is greater than 105% of loan rate & exports would be inhibited, the Sec. may reduce rate, but not more than 5%
Title X General commodity provisions	Loan limit	No provision	$250,000/person for the crops of wheat, feed grains, soybeans, tobacco, & peanuts on nonrecourse loans; Recourse loans above that amount

		CURRENT LAW	HOUSE (H.R. 2100)
General commodity provisions	Payment limit	$50,000/ person (excluding disaster payments) for payments from wheat, feed grains, cotton & rice; Disaster payments $100,000/person for the above commodities; Exemption for lands owned by States political subdivisions or agencies so long as such lands are farmed primarily in direct futherance of a public function	$50,000/person (excluding disaster payments) for payments from wheat, feed grains, cotton, rice; Continues disaster payments for wheat & feed grains with a separate $50,000 payment limit for cotton & rice diversion payment; Exempt from the limit are: any gain realized by repaying a loan for CCC commodities at a level less than the original loan level; Deficiency payments for wheat, feed grains, cotton & rice received a result of a reduction in the loan level due to the Findley amendment & in kind payments for redemption of cotton & rice marketing certificates
Title XI Trade			
	Export program	Authorizes the Secretary to extend intermediate credit(3-10 year terms) through GSM 201 & GSM 301 for the sale of CCC & private stocks to develop, expand, & maintain foreign markets for long-term commercial sale of agricultural products; These programs are to assist in establishing international reserve stocks, export sales of breeding animals, & improving importing nation's infrastructure; GSM 5 authorizes the Sec. to make direct short-term export credit loans to expand commercial exports of agricultural products; This program allows for deferred payment for up to 36 months; GSM-101 & 102 has the same purpose but shifts the risk from the exporter to CCC through U.S. guarantees; Their annual funding authority is 5 bil.; Mandated FY83-85 expenditure for export assistance of $175-190 mil. through CCC charter; Pilot project barter CCC dairy stocks for 40,000 M. tons of ultra-high tempure milk for donation overseas; Dairy, wheat, & rice included in section 416 of AA of 1949 with allowances for multi-year agreements; Authorizes to replenish wheat releases from the existing 4 MMT Food Security Wheat Reserve	Export PIK program to develop & expand export markets & to require the Sec. to provide an offset to a foreign subsidy of an exportable commodity; Blended credit program funded at $325 mil; $5 mil. funding for short term (3 yrs) with max. 1/3 of 1% origination fee; $500 mil. funding for intermediate credit (3-10 yrs.) with funds available for guarantees as well as direct loans & 10% of repayments in foreign currencies which would be used to develop U.S. export markets; Extend the life of the export credit revolving fund; Conduct studies on (1) technologies that could overcome export barries & that could improve the transportation & handling of perishable foods, (2) impact on ag. exports of other U.S. government actions on imports, & (3) export displacement resulting from USDA activties; Extends Security Wheat Reserve; Requires the Secretary to establish a Trade Advisory Comm.

			CURRENT LAW	HOUSE (H.R. 2100)
	Trade	P. L. 480	This authority under Title I allows for sales made from CCC inventories for nonconvertible local currencies; Some of these funds are for repayment of loans for 3-10 years with interest rate based on constant exchange rate & long-term (20-40 years) credit sales at low interest rates with repayment in dollars or local convertible currencies; Title II uses CCC-held or private stocks for direct donations to foreign goverments or through international agencies or U.S. voluntary agencies abroad; Funding limit for Title II for CCC commodities is $1.0 bil.; No minimum annual appropriation for processed and fortified commodities; Title III provides for permanent authority to exchange CCC stocks for strategic materials; Titles III agreements must comprise 15% of all Title I agreements; Sec. 404 of Title IV, with discretionary funding level, authorizes farmer-to-farmer assistance in developing countries to increase food production & improve distribution	Extends life of Food For Peace Act with $200 mil. increase in Title II funds; Private voluntary agencies could sell part of the donated food to offset distribution costs; Authorizes use of P.L. 480 commodities to encourage countries to implement free market reforms in agriculture
Title XII	Conservation			
		Sodbuster	No provision	For highly erodible land not cultivated since 1981, a producer who planted a crop on it would lose all Federal farm benefits on any land; For erodible land cultivated after 1981, producer exempted until 1/1/90 unless producer is actively applying an approved conservation plan then exempt until 1/1/95
		Swampbuster	No provision	A producer who cultivated converted wetland (wetlands that are drained, dredged filled, or leveled in order to make production suitable) would lose all Federal farm benefits on any land for the year in which the wetland was converted

		CURRENT LAW	HOUSE (H.R. 2100)
Conservation	Conservation Reserve	No provision	Maximum acreage is 20 million with Sec. discretion of an additional 5 million acres for surplus commodities; This program allows for contracts of up to 10 or more years for highly erodible land & land with salinity & enviromental hazards that can be used for pasture, permanent grass or legumes; Bids for annual rental payments with $50,000 in cash or in-kind limit per person per year; Sec. discretion to pay 50% of the cost to install the conservation measures; Haying & grazing are not permitted; No requirement for tree planting; Limited to 25% of a county's cropland
Title XIII Credit			
	Emergency, operating, & ownership loans	FmHA direct loans at reduced interest rate for farm ownership, operating purposes, & disaster relief; Disaster loans, $500,000 per farm per disaster, are made up to 80% of loss in counties designated by the Sec; Maximum repayment period for operating loans that were extended 7 years can be extended to 15 years; 20% of operating loans to low-income, limited-resource borrowers	Only family farms eligible for emergency loans; County disaster designation by Sec. eliminated, but individual loss eligibility criteria remains
	Loan processing	County committee members appointed by Sec.; Inventory properties sold at discretionary of Sec.(sales resticted where land prices are low); Third party buyers subject to liens on unpaid debts; Real estate values reduced if mineral rights sold	County committee members elected; Restricts sales of inventory in areas of depressed land prices & previous owner has 1st option on lease; Includes "clear title" provision (protects buyer from 3rd party lien); Revises treatment of mineral proceeds; More benefits accrue to limited-resource borrowers; Prohibits lease for production of surplus products

		CURRENT LAW	HOUSE (H.R. 2100)
Credit	Loan levels	Farm loan programs:	Farm loan programs:

Current law — Farm loan programs:

	FY85 ($ Millions)
Direct real estate	650
Guaranteed real estate	68
Direct operating	3,600
Guaranteed operating	1,172
Emergency disaster	600

House — Farm loan programs:

	Appro-pritions FY86	Farm bill FY86	Farm bill FY87	Farm bill FY88
		$ Millions		
Dir. real est.	500	650	—	—
Guar. real est.	200	50	700	700
Direct operat.	1,920	2,500	2,500	2,500
Guar. operat.	1,480	650	650	650
Emergency disas.	a/	1,300	700	600

Current law — Community programs:

	FY85
Guaranteed industry	—
Direct water & sewer	340
Direct facility loans	115

House — Community programs:

	Appro-pritions FY86	Farm bill FY86	Farm bill FY87	Farm bill FY88
Guar. industry	100	250	250	250
Dir. water & sew.	340	340	340	340
Direct facility	115	115	115	115

a/ As needed

		CURRENT LAW	HOUSE (H.R. 2100)
	Transfer of funds	Sec. discretion to transfer up to 25% of funds between direct & guaranteed programs	Sec. discretion to transfer up to 25% of funds between direct & guaranteed programs
Title XIV Research & Extension		Most programs continued through 9/30/85	Initiate research on value-added technolgies; Expand biotech. research; Conduct studies of emerging technological, economic, socio-logical & enviromental developments on the stucture of agriculture, of management of pesticide resistance, & of cholesterol; Increase effort to expand use of emerging technologies on small & medium-sized farms; Increase activties to expand international economic & trade development

			CURRENT LAW	HOUSE (H.R. 2100)
Title XV	Food stamps			
		Length of authorization	On October 1, the President signed PL 99-114 extending the Food Stamp Program for 45 days. The program expired at midnight on September 30, under the Omnibus Budget Reconciliation Act of 1982 (PL 97-253)	5 years, ending 9/30/90
		Authorization for appropriations	No provision	FY 1986 - $13.584 billion FY 1987 - $14.369 billion FY 1988 - $15.276 billion FY 1989 - $16.142 billion FY 1990 - $16.985 billion
		Authority to reduce benefits	Permits the Secretary of Agriculture to direct state agencies to reduce benefits to the extent necessary if the aggregate value of benefits issued will exceed appropriations	Requires benefit reductions only if expenditures will exceed authorized amounts; Prohibits benefit reductions in months when the national unemployment rate exceeds 9 percent
		Adjustment of Thrifty Food Plan	Food stamp benefits are adjusted each October based on the cost of the Thrifty Food Plan in the preceding June	Bases October adjustment of food stamp benefits on the estimated cost of the Thrifty Food Plan for the preceding September 30
		Sales tax	No provision; Thus, states may impose a sales tax on food stamp purchases	Prohibits state and local jurisdictions from collecting sales taxes on food purchased with food stamps
		Eligibility of the homeless	No provision	Amends household definition to establish eligibility of the homeless; Requires state agencies to establish a method for certifying and issuing food stamps to the homeless
		Categorical eligibility	State agencies have authority to certify under an approved plan that a household meets the resource limitation requirements if all members receive Aid to Families with Dependent Children (AFDC) and their gross income does not exceed 130 of the poverty level	Makes pure AFDC/SSI (Supplemental Security Income) households eligible, subject only to restrictions on boarders, institutionalization, SSI cashout, and fraud disqualification
		Earned income deduction	Net monthly income is used to determine a household's eligibility and benefit level; When calculating net income, households can deduct 18 percent of earned income to compensate for taxes, union dues, and other work expenses	Raises earned income deduction from 18 to 20 percent

		CURRENT LAW	HOUSE (H.R. 2100)
Food stamps	Dependent care and excess shelter deductions	A combined deduction (currently a maximum of $139 per month) for actual dependent care costs and/or excess shelter cost is subtracted from gross income to obtain net income	Raises maximum amount of dependent care/excess shelter deduction to $155 per month in fiscal 1986; Separates the dependent care and excess shelter deductions in fiscal 1987; Sets the maximum dependent care deduction at $155 per month, adjusted for inflation
	Work requirements	All persons between the ages of 18 and 60 who are physically and mentally fit are required to register for work and accept suitable employment if it is offered; Exceptions include persons responsible for the care of a child under age 6 or someone who is incapacitated and persons receiving unemployment compensation	Replaces the job search requirement with employment requirements
	Asset limitations	Eligibility is extended to households with countable assets (cash, stocks, bonds, checking accounts, savings accounts) worth up $1,500; Households of two or more people may have up to $3,000 if at least one member is age 60 or over	Increases the asset limit for non-elderly households from $1,500 to $2,250; Increases asset limit for elderly households with at least two members from $3,000 to $3,500
Puerto Rico nutrition assistance program	Cash/noncash benefits	PL 99-114, signed on October 1, delays for 45 days a requirement that Puerto Rico convert to a noncash benefit program by October 1, 1985	Authorizes Puerto Rico to continue providing cash assistance
	Funding	The Omnibus Budget Reconcilitaion Act of 1981 provided for the general nutrition assistance grant program in Puerto Rico and set funding at $825 million annually	Authorizes the following funding level: FY 1986 - $825 million FY 1987 - $852 million FY 1988 - [illegible] million FY 1989 - [illegible] million FY 1990 - $974 million
Commodity distribution programs	Length of authorization	PL 99-114 extends all Commodity Distribution Programs for 45 days beyond 9/30/85	5 years, ending 9/30/90

			CURRENT LAW	HOUSE (H.R. 2100)
	Commodity supplemental food program	Length of authorization	PL 99-114 extends the program for 45 days beyond 9/30/85	4 years, ending 9/30/89
		Elderly feeding pilot projects	These projects operate under the Commodity Supplemental Food Program and provide low-income elderly participants with surplus food to supplement their diet	Authorizes the three areas currently distributing commodities to low-income elderly persons to continue such distribution
Title XVI	Temporary emergency food assistance program			
		Length of authorization	PL 99-114 extends the program for 45 days beyond 9/30/85.	2 years, ending 9/30/87
		Special distribution	No provision	No provision
		Displacement study	No provision	Directs the Secretary of Agriculture to submit an annual report to Congress on the existence and extent of commodity displacement and substitutions; Extends current law
		Funding	$50 million each fiscal year to compensate the states and local agencies for distribution costs	Extends current law
	National commodity processing (NCP) system	Length of authorization	FY 85 supplemental extended the NCP system through 6/30/86: Under this system, USDA's Food and Nutrition Service enters into processing agreements with processors to convert commodities into various end products desired by recipient agencies such as schools participating in the National School Lunch Program	Extends current law through 9/30/87
Title XVII	Nutrition programs			
		Nutrition education	Authorizes the Expanded Food and Nutition Education Program (EFNAP) to assist low income persons to better manage their food budgets in meeting their nutritional needs	Extends EFNEP with additional funds to expand into more counties
		Nutrition monitoring	Provides for a continuing annual survey of food intakes with special emphasis on low income individuals	Extends current law

		CURRENT LAW	HOUSE (H.R. 2100)
Title XVIII Miscellaneous			
	Processing, inspection, & labeling	Imported carcasses & meat from cattle, sheep, swine, goats, horses, mules, & other equines required to meet the same inspection as meat products produced in the U.S.	Imported poultry required to meet the same inspection, residue, & other related health standards as applied to products produced in the U.S.; Country's importing meat into the U.S. are required to have a certificate showing that they maintain a program using reliable analytical methods to ensure compliance with U.S. standards for residue; Noncompliance will result in loss of certification; Comptroller General shall conduct a study of HHS & USDA product purity & inspection requirments & regulations for imported food & commodities
	Beef promotion order	Establish a beef promotion program, operated by a Beef Board of sixty eight members distributed according to cattle produced in each geographic area of the U.S., that would maintain & expand the general markets for beef & beef products; Assessments, 1/2 of 1% of the value of cattle, payed by producers to buyers, who transfer the funds to the Beef Board; Producers not in favor of the program can demand a refund of the assessment; Referendum, required (1) that 50% of the registered producers cast a vote & (2) that a majority of those voting approve it, shall be conducted any time during a consecutive 12-month period; Sec. can terminate the program; This program is of lower order to any other U.S. or State program	Establish a beef promotion program, operated by a Cattlemen's Beef Promotion Research Board & a 10 person Beef Promotion Operating Comm., that would maintain & expand domestic & foreign markets for beef & beef products; Assessments, $1.00/head of cattle or equivalent, paid by persons purchasing cattle from producers & importers & is refundable up to $.50/ head to offset State assessment; Referendum, requiring majority approval of producers, shall be conducted during the 24th month of program to determine its continuation; Future referenda can be held if requested by 10% of the producers; No provision for termination of the program by the Sec.; This program is of lower order to any other U.S. or State program

		CURRENT LAW	HOUSE (H.R. 2100)
Miscellaneous	Pork promotion order	No provision	Establish a pork promotion program, operated by the National Pork Producers Delegate Body & the National Pork Producers Board of Directors, & a 11 member National Pork Producers Executive Comm., that would maintain & expand domestic & foreign markets for pork & pork products; Assessments are .3% of swine market value or equivalent which can be increased in increments of .1% up to .5%, higher amounts approved in referendum; These assessments are paid by persons purchasing swine from producers or importers; A referendum, to determine continuation requires majority approval of producers, shall be conducted not earlier than 2 years & not later than 3 years of enactment among producers, who marketed 50 or more head during a representative period; Future referenda can be held if requested by 15% of the producers; Sec. can terminate the program; This program supercedes any other U.S. or State program
	Watermelon promotion plan	No provision	Establish a watermelon promotion program, operated by the National Watermelon Promotion Board (composed of an equal number of producer & handler representatives & one public representative), that would maintain & expand domestic & foreign markets for U.S. produced watermelons; Assessments are paid by producers & handlers of watermelons at a similiar rate, but those not in favor of the program can demand a refund; Referendum on implementation requires majority approval of both producers & handlers voting & 2/3 of those voting & by producers & handlers voting who have control of 2/3 of the watermelons produced & handled in a representative period; Future referenda can be held if requested by 10% of the producers; Sec. can terminate the program

		CURRENT LAW	HOUSE (H.R. 2100)
Miscellaneous	Marketing orders	Penalty for marketing order violations is $500; Provision for Sec. to terminate a marketing order	Penalty for marketing order violations increased from $500 to $5,000; Sec. may not terminate any order for a commodity that does not have a price support program unless a majority of producers want to terminate it; Expanded confidentiality of order data
	Grain inspection	No provision	Importing countries of U.S. grain exports can request moisture content as a criterion in the official grade; As of 10/1/85 each type of grain shall have a new grade that exceeds the standards of No. 1; Department is required to develop new classifications based on characteristics other than visual appearance; Grain for export: no dockage or foreign material can be added to it & no water except by aeration with natural air; Maximum of 4% adjustment of moisture content when blending grains
	ASC committees	Provides for the establishment of community & county committees	Guidelines for delineating community committees; Committee members, serve without pay & must participate or cooperate in local programs, are elected locally for 3-years; County committees are composed of members from the community committees
	Miscellaneous	No provision	Provides for additional considerations of CCC storage contracts; Department is to maintain an interest in weather & climate information; Requires feed in the emergency feed program to be nutritively suitable; Minimum lead content of .5 grams/gallon of gasoline for farm use required until 4-months after an USDA-EPA study on lead additives in farm machinery fuel has been submitted to Congress; Establish a Strategic Ethanol Reserve from ethanol produced from U.S. domestic grain; Additions to the Reserve are the following: 3 mil. barrels in FY 1986, 6 mil. in FY 1987, 9 mil. in FY 1988 & 10 mil. in each succeeding fiscal year until the number of barrels in the Reserve equals 10% of the petroleum barrels in the Strategic Petroleum Reserve; Producers ineligible for Federal benefits if found guilty of any charges associated with marihuana or other drug-producing plants; Department of Defense controlled land is not eligible for benefits from programs administered by USDA;

		CURRENT LAW	HOUSE (H.R. 2100)
Title XIX National agricultural policy commission		No provision	Establish a National Commission on Agricultural Policy to conduct a study of the structure, procedures, & methods of formulating & administering agricultural policies, programs, & practices of the U.S. on farm income, the family-farm system, the long term profitability of farmers; Futher it will examine the effects of national & international trends on U.S. agricultural production, means of changing agriculture policies, programs & practices to changing economic conditions, role of State & local governments in future agricultural policy, the process of making policy & the long-term stability in policy, & demographic trends; It shall be composed of 15 members nominated by the Governors & appointed by the President
Title XX National Aquaculture Improvement Act			
	Programs	To provide for aquacultural research, development, & demonstration projects in Federal facilities & State agencies	Extends current law except that non-profit private research institutions are also able to participate
	Leadership	No provision	Establish Dept. of Agri. as the lead federal agency in the coordination & dissemination of information
	Development Plan	Develop a plan that identifies aquatic species that have commercial potential, specifies means to achieve the potential, & specifies research on the effect of aquaculture on esturaine & other water areas	Extends current law except that the Sec. of Agriculture shall consult with the Sec. of Commerce & Sec. of Interior in the implementation of a plan
	Information services	Establish & maintain an information service to handle scientific, technical, legal, & economic information relaing to aquacultural; Conduct appropriate surveys; Conduct continuing study on whether existing capture fisheries would be effected by commercial aquacultural enterprises	Extends current law except that the Department is to establish a National Aquaculture Information Center as a repository of information which shall be made available to the public
	Apropriations	Department / FY / Amount Agriculture 1984-85 $2 mil. Commerence 1984-85 $2 mil. Interior 1984-85 $1 mil.	Each department is authorized $1 mil per year for FY1986-1988

SUMMARY OF SENATE FARM BILL

WHEAT: 1985 Target $4.38; Loan $3.30 bu.

Referendum for 1987-89 wheat crops, Secretary to conduct producer poll for support of referendum and national marketing quota. Approval would provide target price at higher of national average per bushel cost of production (COP) or $4.65 bu, and loan rate at higher or 75% of average per bushel COP or $3.55 bu.

If no marketing quota is in effect, target prices depend on farm's level of production, annual gross commodity sales, and selected acreage reduction. Target price schedule is as follows:

Production of less than 2,000 bu, annual gross agricultural sales less than $20,000, target is $3.85 bu for 1986-88, irrespective of acreage reduction percentage;

Production of less than 2,000 bu, annual gross agricultural sales more than $20,000, target is $4.65 bu for 1986-88 for 20% acreage reduction;

Production of more than 2,000 bu, the target price varies with acreage reduction selected by producer as follows:

Acreage reduction		Wheat target prices 1986	1987	1988
10 percent		NA	NA	$3.80
15 percent		$4.20	$3.95	3.95
20 percent	0-2,000 bu	3.85	3.66	3.66
	2,000-20,000	4.65	4.42	4.42
	over 20,000	4.15	3.94	3.94
25 percent		4.60	4.35	4.35
30 percent		4.85	4.60	4.55
35 percent		5.15	4.85	NA
40 percent		5.50	5.20	NA

1989 target price for all producers set by Secretary taking account of supply/demand conditions, cost of production, but not less than 85% of 1985 target price. Loan rate set at $3.00 bu in 1986. For 1987-89, set at 75-85% or 5-year simple average of marketing year prices but not reduced more than 5% in a year; EXCEPT if current year price is not more than 110% of loan, next year's loan may be reduced up to an additional 20%. Loan repayments must be permitted at lower of: loan rate or higher of prevailing world price or 70% of the loan level before the additional reduction of up to 20%. In 1987, Secretary must make payments in cash or in kind to the extent CCC-owned commodities are available to compensate producers for drop in target prices. Payments to be made to eligible producers who forgo loans, equal to difference between loan rate and loan repayment level times quantity eligible. Acreage reduction prohibited after 1988.

FEED GRAINS: 1985 Corn Target $3.03; Loan $2.55 bu.

1986 target price is $3.03 bu.; for 1987-89 target set by Secretary but not reduced more than 5% from previous year. If 1987 target is reduced, Secretary must make up reduction in target with in-kind payments. If 1988 target is reduced, Secretary must make up reduction from 1987 with in-kind payments to the extent CCC-owned commodities are available, otherwise in cash. Loan rate set at $2.40 bu for 1986; for 1987-89, loan set at 75-85% of 5-year simple average

of marketing year prices, excluding high and low, but not reduced more than 5% in any one year, EXCEPT if price is not greater than 110% of loan, next year's loan may be reduced by up to 20%. Loan repayment terms same as for wheat, also same feature for payment to eligible producers who forgo loans. Acreage reduction not to exceed 15% for 1986-88, with acreage reduction prohibited thereafter.

RICE: 1985 Target $11.90; Loan $8.00 cwt.

1986 target price same as current level; for 1987-89, target set by Secretary but may not be reduced by more than 5% from previous year. Secretary must compensate for 1987 reduction with in-kind payments. If 1988 target is reduced, Secretary must make up reduction from 1987 with in-kind payments to the extent CCC-owned commodities are available, otherwise in cash. Loan rate for 1986 set at $7.20 cwt. For 1987-89, loan rate set at higher of $6.50 cwt or 85% of 5-year moving average of market prices excluding the high and low, but not reduced more than 5% from previous year. Loans may be repaid at smaller of: the loan rate or the higher of the prevailing world market price or 50% of the loan rate in 1986 and 1987, 60% of the loan rate in 1988, and 70% of the loan rate in 1989. For 1986 and 1987, 60% of the loan rate in 1988, and 70% of the loan rate in 1989. For 1986-88 acreage reductions not to exceed 35%, with acreage reductions prohibited thereafter.

For 1985, marketing loans must be permitted, with producers able to repay loans at the lesser of the 1985 loan level or the prevailing world market price. As a condition for permitting repayment, Secretary may require producer to purchase in-kind certificates not to exceed the difference between the loan rate and the repayment level. Eligible producers who forgo obtaining a loan in 1985 may receive a payment which may be in kind, equal to the difference between the loan rate and the loan repayment level.

COTTON: 1985 target $0.81; loan $0.573 lb.

1986 target price same as current level; for 1987-89, target set by Secretary but may not be reduced by more than 5% a year. If 1987 target is reduced, Secretary must compensate for reduction from 1986 with in-kind payments. If 1988 target is reduced, Secretary must compensate for reduction from 1987 with in-kind payments to the extent CCC-owned commodities are available, otherwise in cash. Loan rate in 1986 set at $0.55 lb; for 1987-89, loan is higher of: 85% of 5-year average of spot prices excluding high and low or $0.50 lb, but not reduce by more than 5% from previous year. Loans may be repaid in 1986 at smaller of loan rate or world price. For 1987-89, if world price is less than 80% of loan, Secretary to prescribe repayment level, not to exceed 80%, that will minimize forfeitures and avoid stock accumulation. For 1986-88, acreage reduction not to exceed 20%, with acreage reductions prohibited thereafter.

SOYBEANS: 1985 loan $5.02 bu.

Loans set at 75% of simple 5-year average of market prices excluding the high and low, but not less than $4.25 bu. If current year's price is not more than 105% of loan, next year's loan may be reduced but not by more than 10% and not less than $4.25 bu. For 1985 soybean crop only, producers may receive a payment equal to the higher of $35 per acre or $1 a bushel for soybeans harvested in 1985, provided producer redeemed outstanding loan, promises to redeem, or was eligible but did not obtain a loan.

GENERAL COMMODITY PROVISIONS

Acreage reduction trigger: maximum permitted acreage reduction percentages are increased by 5 percentage points when projected stocks are equal to or exceed one-third of projected total use.
Program payment yield: for 1986-89, frozen at the average of program payment yields for 1981 through 1985 crops.
Advance payments: up to 90% of projected deficiency payments may be made in advance and may be made in kind.

DAIRY

Price supports through direct purchases at $11.60 cwt, adjusted on 12-month net CCC purchases. If purchases are greater than 5 billion lbs, support drops $0.50 cwt on 1/1/87; for 1988-89, support rate can be raised $0.50 or dropped up to $1 cwt depending on level of stock purchases.

PEANUTS: Extends current two-tiered price support program.

SUGAR: Extends current program, with minimum loan rate at $0.18 lb. Requires the President to operate a no-net-cost program.

WOOL AND MOHAIR: Extends current program but imposes $50,000 payment limit on producers.

SUNFLOWERS: For 1985 sunflower crop only, producers will receive a payment equal to the higher of $35 per acre or $2 per cwt for sunflowerseed harvested in 1985.

TRADE

Includes intermediate export credit program guarantees at $500 million, also includes $5 billion GSM-102 program. Minimum tonnage established for Section 416; reauthorizes P.L. 480 program through FY89, provides authority for Food for Progress program, and continues authority for export enhancement of $2 billion of CCC commodities through FY89. Establishes special advisor to President for food aid and agricultural trade. Authorizes P.L. 480 foreign currency sales. Increases cargo preference for U.S. food aid programs to 75% under U.S. flag vessels.

CONSERVATION

Long term, 40-45 million acre conservation reserve program, with up to 15 million acres to be included in 1987, 25 million in 1988, 30 million in 1989, and 40-45 million in 1990. Not less than 5 million acres in trees. Establishment costs shared up to 50%. Sodbuster and swampbuster provisions to prevent cultivation on highly erodible land from commodity program benefits after 1987.

CREDIT

Continues all existing FmHA loan programs. Emergency disaster loan program restricted to areas and losses where insurance not available.

COMMODITY PROGRAM UPDATE

by Leroy Rude*

Commodity	1982	1983	1984	1985
Wheat				
Target price ($ per bu)	4.05	4.30	4.38	4.38
Loan level ($ per bu)	3.55	3.65	3.30	3.30
Reserve loan level ($ per bu)	4.00	1/3.65	1/3.30	N.R.
Reserve release level ($ per bu)	4.65	4.65	4.45	N.R.
Acreage reduction (percent)	15	15	20	20
Paid land diversion (percent)	--	5	10	10
Payment-in-kind (percent)	--	2/10-30	3/10-20	--
Nat'l base acreage (mil acres)	90.6	90.8	93.9	93.9
Corn				
Target price ($ per bu)	2.70	2.86	3.03	3.03
Loan level ($ per bu)	2.55	2.65	2.55	2.55
Reserve loan level ($ per bu)	2.90	1/2.65	1/2.55	N.R.
Reserve release level ($ per bu)	3.25	3.25	3.25	N.R.
Acreage reduction (percent) 4/	10	10	10	10
Paid land diversion (percent) 4/	--	10	--	--
Payment-in-kind (percent)	--	2/10-30	--	--
Nat'l base acreage (mil acres)	81.5	5/101.1	81.4	83.3
Grain Sorghum				
Target price ($ per bu)	2.60	2.72	2.88	2.88
Loan level ($ per bu)	2.42	2.52	2.42	2.42
Reserve loan level ($ per bu)	2.75	2.52	2.42	N.R.
Reserve release level ($ per bu)	3.10	3.10	3.10	N.R.
Acreage reduction (percent) 4/	10	10	10	10
Paid land diversion (percent) 4/	--	10	--	--
Payment-in-kind (percent)	--	2/10-30	--	--
Nat'l base acreage (mil acres)	17.7	5/101.1	18.4	19.9
Barley				
Target price ($ per bu)	2.60	2.60	2.60	2.60
Loan level ($ per bu)	2.08	2.16	2.08	2.08
Reserve loan level ($ per bu)	2.37	2.16	2.08	N.R.
Reserve release level ($ per bu)	2.65	2.65	2.65	N.R.
Acreage reduction (percent) 4/	10	10	10	10
Paid land diversion (percent) 4/	--	10	--	--
Nat'l base acreage (mil acres)	10.4	5/19.1	11.6	13.2
Oats				
Target price ($ per bu)	1.50	1.60	1.60	1.60
Loan level ($ per bu)	1.31	1.36	1.31	1.31
Reserve loan level ($ per bu)	1.49	1.36	1.31	N.R.
Reserve release level ($ per bu)	1.65	1.65	1.65	N.R.
Acreage reduction (percent) 4/	10	10	10	10

Continued--

*Agricultural Economist in the Food and Agricultural Policy Branch, NED, ERS.

Commodity	1982	1983	1984	1985
Oats Cont.				
Paid land diversion (percent) 4/	--	10	--	--
Nat'l base acreage (mil acres)	10.4	5/19.1	9.9	9.9
Rye				
Loan level ($ per bu)	2.17	2.25	2.17	2.17
Soybeans				
Loan level ($ per bu)	5.02	5.02	5.02	5.02
Upland Cotton				
Target price (cents per lb)	71.00	76.00	81.00	81.00
Loan level (cents per lb) 6/	57.08	1/55.00	1/55.00	57.30
Acreage reduction (percent)	15	20	25	20
Paid land diversion (percent)	--	5	--	10
Payment-in-kind (percent)	--	2/10-30	--	--
Nat'l base acreage (mil acres)	15.3	15.4	15.6	15.8
Extra Long Staple (ELS) Cotton				
Target price (cents per lb) 6/	--	--	99.00	103.14
Loan level (cents per lb) 6/	99.89	96.25	82.50	85.95
Acreage reduction (percent)	--	--	10	10
Nat'l marketing quota (1,000 bales)	157	102	--	--
Nat'l allotment (1,000 acres)	120.2	80.1	--	--
Nat'l base acreage (1,000 acres)	--	--	68.3	66.0
Rice				
Target price ($ per cwt)	10.85	11.40	11.90	11.90
Loan level ($ per cwt)	8.14	8.14	1/8.00	1/8.00
Acreage reduction (percent)	15	15	25	20
Paid land diversion (percent)	--	5	--	15
Payment-in-kind (percent)	--	2/10-30	--	--
Nat'l base acreage (mil acres)	4.0	4.0	4.2	4.2
Flue-cured Tobacco				
Loan level (cents per lb) 6/	169.9	169.9	169.9	169.9
Effective marketing quota (mil lbs)	977	892	840	763.8
Burley Tobacco				
Loan level (cents per lb) 6/	175.1	175.1	175.1	178.8
Effective marketing quota (mil lbs)	778	641	697	541.7
Peanuts				
Loan level, quota ($ per ton) 1/	550	550	550	559
Loan level, non-quota ($ per ton)	200	185	185	148
Marketing poundage quota (1,000 tons) 7/	1,200	1,167	1,134	1,100
Wool				
Support level (cents per lb) 6/	137	153	165	173

Commodity	1982	1983	1984	1985
Mohair				
Support level (cents per lb) 6/	397.7	462.7	516.9	465.0
Sugar				
Loan level for raw cane (cents per lb) 1/	17.00	17.50	17.75	18.00
Loan level for refined beets (cents per lb)	20.15	20.86	20.76	21.06
Honey				
Loan level (cents per lb) 6/	60.4	62.2	65.8	65.3

N.R. = Not Released.

1/ Minimum allowed by law.

2/ Producers could choose any level of participation from 10 to 30 percent, inclusive. However, for upland cotton producers, the sum of the PIK acres plus the paid diversion acres could not exceed 30 percent of the base, therefore participants who elected to participate in the paid diversion would decrease their PIK acreage to 25 percent of the base. Producers also had the option of submitting bids to remove their entire crop-specific acreage base from production.

3/ Wheat PIK for 1984--wheat producers could choose any level of participation from 10 to 20 percent, inclusive.

4/ There are two established bases for the 1982-85 acreage reduction programs for feed grains: one for corn and sorghum; the other for barley and oats.

5/ Combined totals: corn and sorghum; barley and oats.

6/ Determined by statutory formula.

7/ The marketing quota was suspended by the 1981 Farm Bill, but the poundage quota was retained.

AGRICULTURE - FOOD POLICY UPDATE: ADMINISTRATIVE DECISIONS

by Lewrene Glaser*

Grains and Cotton

1984 Payments--According to USDA figures released July 10, the Federal government paid nearly $6.6 billion in commodity program payments in 1984 with 61 percent of that amount going to the 95 percent of the program participants who received less than $25,000 each. The program payments were distributed as follows:

Cotton -- Eighty-eight percent of the total cotton program payees received less than $25,000 each and accounted for 44 percent of the total cotton deficiency payments, while 12 percent of the payees received more than $25,000 each and received 56 percent of the payments.

Rice -- Similarly, 78 percent of the rice program payees received less than $25,000 and accounted for 35 percent of total rice deficiency payments, while 22 percent received over $25,000 each and accounted for 65 percent of the payments.

Wheat -- Nearly 99 percent of the wheat program payees received less than $25,000 amounting to 85.5 percent of the total wheat deficiency payments, while a little over 1 percent of the payees received more than $25,000, totaling 14.5 percent of the payments.

Corn -- Similar to the wheat figures, 98 percent all of corn program payees received less than $25,000 and accounted for 84 percent of the total corn deficiency payments, while only 2 percent of the payees received more than $25,000 and accounted for 16 percent of the total payments.

Dairy -- Seventy-five percent of all milk program payees received less than $25,000, totaling 38 percent of total payments; 25 percent of all payees received more than $25,000 while accounting for 62 percent of total payments.

Wool -- Over 99 percent of all wool program payees received less than $25,000 each and accounted for two-thirds of the total wool payments, while less than 1 percent of the payees received more than $25,000 each, amounting to one-third of all the payments.

Feed Grain County Loan and Purchase Rates--USDA has issued county loan and purchase rates for the 1985 crops of corn, oats, rye, and sorghum based on the national average loan rates announced earlier. Corn rates are based on $2.55 per bushel for No. 2. Loan rates for oats are based on $1.31 per bushel grading No. 3 or better; exceptions are made for test weight and stained or weathered oats. Loans rates for rye are based on $2.17 per bushel grading No. 2 or better; exceptions are made for test weight or "thin" rye. Sorghum loan rates are based on $4.32 per hundredweight grading No. 3 or better. State and count loan rates are adjusted to reflect such factors as prices received by farmers and production and consumption trends.

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New Pima Cotton Standards--New grade standards for American Pima cotton will become effective on July 1, 1986. The number of physical grade standards will be reduced from nine to six by consolidating some the existing grades. Concurrently, the color range within each of the new standards will be widened, reflecting a color shift that has occurred gradually within the American Pima cotton crop as new varieties have been introduced.

Bale Assessment Increased for Cotton Research, Promotion Program--Cotton harvested and ginned after July 24, 1985 is subject to an assessment of one dollar per bale plus six-tenths of one percent of the value of the bale, up from one dollar plus four-tenths. The increase will raise the average total per-bale assessment from about $2.15 to $2.75.

Amendment to Cotton Loan Program Proposed--On September 19, the Commodity Credit Corporation announced plans to amend cotton loan program regulations to permit CCC to authorize a person or firm to act as an authorized servicing agent for Form A cotton loans. This proposed rule would permit upland and extra long staple cotton producers to obtain and repay loans through a private entity which may be more accessible to a producer than an ASCS county office.

1986 Upland Cotton Marketing Quota and Allotment-- On October 11, USDA announced a national marketing quota of 17.133 million bales and a national acreage allotment of 16 million acres for the 1986 crop of upland cotton. The announcement was made under the provisions of the Agricultural Adjustment Act of 1938. Marketing quota and acreage allotment programs for upland cotton were suspended through the 1985 crop by the Agriculture and Food Act of 1981, which expired September 30. Without new farm legislation, authority for the 1986-crop upland cotton program reverts to the permanent provisions of the 1938 Act. A referendum must be conducted by December 15 to determine whether producers favor or oppose marketing quotas. To become effective, the quotas must be approved by two-thirds or more of the producers voting.

Marketing Order for Hops--USDA will terminate Marketing Order No. 991 on December 31, 1985, thus ending the regulations governing the marketing of domestically produced hops on that date. The marketing order has been in effect since 1966.

Offer Rate System for Warehouse Contracts Amended--USDA has amended its offer rate system for contracting grain storage space by giving the CCC the right to reject offers by warehouse operators when the handling rates exceed acceptable levels. If a warehouse operator makes an offer for either receiving or loading out rates that is excessive, CCC can reject the offer and terminate the storage contract, unless the operator subsequently submits acceptable rates.

Fees Reduced for Supervision of Grain Inspection and Weighing Services--Effective October 1, USDA reduced by about 40 percent the fees it charges official inspection and weighing agencies for its supervision of their services. The fee reductions are consistent with USDA's policy of setting fees to recover costs of its services and to maintain a six-month operating reserve.

Grain Inspection and Certification Services Changed--Effective November 30, new regulations that specify types of inspection services and certificates provided by the Federal Grain Inspection Service will be adopted. The changes include: eliminating use of multiple certificates when portions of a grain shipment do not meet inspection requirements; allowing voluntary instead of mandatory prior-to-loading stowage examinations of outbound, intra-company barge shipments of grain; allowing issuance of waivers that would permit requests for reinspection or appeals to be filed after a grain carrier has left the service point where the original inspection was performed; revising procedures to reverify test weights used to maintain approved scales within tolerance, and to test railway and truck scales.

New Grain Inspection, Weighing Equipment Regulations Proposed--USDA has announced a proposal to incorporate appropriate National Bureau of Standards guidelines for scales, weighing and measuring devices into its Federal Grain Inspection Service regulations. The proposal adopts applicable NBS guidelines established in the 1985 edition of NBS handbook 44, "Specifications, Tolerances and Other Technical Requirements for Weighing and Measuring Devices," and NBS Handbook 105-1, "Specifications and Tolerances for Field Standard Weights." Certain requirements more stringent than NBS guidelines are included for grain hopper scale tolerances, vehicle and truck scale classes, and minimum test weights for verifying vehicle and truck scales. The proposal also includes clarifications of tolerances and procedures for laboratory equipment used to obtain and certify official grain inspection results.

Oilseeds and Tobacco

1985-Crop Soybean Loan and Purchase Rate--On September 3, USDA announced the national loan and purchases rate for 1985-crop soybeans of $5.02 per bushel. County loan and purchased rates were issued September 11 for soybeans grading U.S. No. 2 or better. All producers of 1985-crop soybeans will be eligible for loans and purchases since USDA does not require farmers to take part in production adjustment programs as a condition of eligibility.

1985 Tobacco Price Supports--On September 13, USDA issued 1985-crop price support levels for several kinds of tobacco. The levels are:

Kind	1985 Support Level ($/lb)
Burley (type 31)	$1.788
Fire-cured (type 21)	$1.188
Fire-cured (types 22-23)	$1.23
Dark air-cured (types 35-36)	$1.047
Sun-cured (type 37)	$1.094
Cigar binder & filler (types 42-44, 53-55)	$0.907
Puerto Rican Cigar filler (type 46)	$0.74

The level for burley tobacco was increased 0.037 cents per pound, the minimum increase permitted by law, while the level for dark air-cured tobacco was lowered by one cent. The five other kinds remain unchanged from 1982 through 1984 levels.

Grade Loan Rates--On July 29, USDA announced the grade loan rates for the 1985 crop of flue-cured tobacco, based on the price support level of $1.65 per pound; the loan rates range from $1.08 to $2.16 per pound. On October 29, USDA issued grade loan rates for 1985-crop dark air-cured tobacco (type 35 and 36) from Kentucky and Tennessee and for 1985-crop fire-cured tobacco (types 22 and 23). Rates for dark air-cured tobacco range from 49 cents to $1.73 per pound. Rates for fire-cured tobacco range from 25 cents to $1.88 per pound.

Virginia Tobacco Market Receives Official Auction Designation--The tobacco market at Farmville, Virginia, will be officially designated as a tobacco auction market for type 37 Virginia sun-cured tobacco beginning with the 1985 marketing season. The Tobacco Inspection Act of 1935 requires tobacco growers that used a market the previous year approve by a two-thirds majority the designation of a tobacco auction market before the designation becomes official. All tobacco sold at officially designated auction markets must be officially inspected and graded.

Fee Increase for Permissive Tobacco Inspection Proposed-- On August 13, USDA proposed raising its fees for permissive tobacco inspection in order to recover increased operating costs for providing the service. The hourly rate for inspection during regular working hours would increase from $20.45 to $22.30 if the proposal is enacted. Overtime service fees would increase from $24.40 to $26.60 an hour, and service performed on Sundays and holidays would increase from $30.50 to $33.35 an hour. Under terms of the Tobacco Inspection Act, fees must, as nearly as practicable, cover the costs of the service. The increase would not affect mandatory inspection fees for sales at designated auction markets.

Fruit and Vegetables

Citrus Canker--On June 19, USDA amended its citrus canker regulations by expanding the list of covered articles and designating new locations as commercial citrus-producing areas. The list of articles now includes plant parts--including fruits and seeds--of all species of citrus and some closely related plants. Guam, the Northern Mariana Islands, and the U.S. Virgin Islands are now covered by the regulations as commercial citrus-producing areas, thereby prohibiting the movement of Florida fruit to those locations.

On June 24, USDA proposed relaxing the Federal quarantine regulations that have been in effect in Florida since September 1984. Under the proposal, fruit meeting certain criteria could be issued certificates verifying freedom from disease and could then be shipped to any state, territory, or possession.

On August 30, USDA announced that all Unshu oranges imported into Alaska from Japan must now meet stringent requirements to guard against the possibility of introducing citrus canker into the United States. Formerly, these safeguards concerning growing, packing, inspecting, treating, labeling and certifying Unshu oranges were not required for those imported into Alaska for consumption there, but were required for those brought into Hawaii, Oregon, Washington, Idaho and Montana. Unshu oranges are not permitted elsewhere in the United States.

Canned Carrots and Beets--On June 24, USDA revised its standards for grades of canned carrots and beets by lowering the recommended minimum drained weights for all styles packed in No. 10 cans by two ounces, except the julienne style which was reduced by four ounces. The No. 10 size is a large can designed primarily for the institutional market. The change was made at the request of major segments of the food processing industry.

Canned Clingstone Peaches--USDA has returned to "variable standards" for grades of canned Clingstone peaches, instead of the "attribute standards" adopted in 1978. Variable standards allow numerical values to be assigned within grades to factors such as size, color, and defects, while attribute standards assigned only grade names. The change became effective July 1.

Tomato Juice--USDA revised the voluntary standards for grades of canned and concentrated tomato juice, effective July 22. The final rule sets separate standards for grades of tomato juice from concentrate; modernizes the format of the standards to include definitions of terms and easy-to-read tables; and removes the word "canned" from the canned tomato juice grade standards because other types of processing and containers are now being used.

Greenhouse Cucumbers--On September 5, USDA revised its voluntary standards for greenhouse cucumbers. The new grade standards: delete maturity requirements from all grades; establish a definition for "injury" by specific defects for U.S. Fancy grade; establish minimum standards for cleanliness, defined as practically free from dirt or other foreign material; require that U.S. Fancy grade cucumbers be free from cuts, and that U.S. No. 1 and No. 2 grades be free from unhealed cuts; establish a minimum length, unless otherwise specified, that will not be less than 11 inches for all grades; redefine the "standard pack" provision to reflect current packing practices; set forth definitions for "permanent defects" and "condition defects;" and update the format for the standards.

New Fresh Tomato Standards Proposed--USDA has proposed amending its voluntary standards for grades of fresh tomatoes to bring them in line with current sizing practices. The action was taken at the request of the Florida Tomato Exchange and the California Fresh Market Tomato Advisory Board. It was suggested that changing the diameter requirements of the current generic size designations would reduce the industry's present difficulty in meeting the size requirements and would promote more uniform trading practices.

New Peeled Potato Standards Proposed--USDA has also proposed revising the voluntary standards for grades of peeled potatoes. The proposed rule would delete the reference to sulfur dioxide in the product description, but retain the reference to treatment (to prevent discoloration) by means permissible under provisions of the Food, Drug, and Cosmetic Act. Single, letter grade designations would replace the present dual grade nomenclature.

Sugar and Sweeteners

Proposed Honey Research, Promotion and Information Program--On May 17, USDA published a proposal to establish a national research, promotion and consumer information program designed to increase consumption of honey in the United States. The program would be financed by an assessment from persons who produce or import at least 6,000 pounds of honey annually and would be operated at no cost to the Federal government. It would be

administered by a 13-member honey board representing honey producers, handlers, importers, honey-marketing cooperatives, and the general public. Orders similar to the proposed honey program are currently in effect for cotton, eggs, wheat, wool, beef and potatoes.

Sale Policy for CCC-Owned Beet Sugar--On June 11, USDA announced its sales policy for refined beet sugar owned by the Commodity Credit Corporation. The minimum price CCC will consider for acceptance is the higher of the market price, as determined by CCC, or the formula price which is 109 percent of the 1984 crop regional loan rate for refined beet sugar where it is stored.

Sugar Loans Extended--Sugar processors with 1984-crop sugar loans that matured June 30, July 31 or August 31 were allowed to request an extension of their loan maturity date to September 30. The date was extended to give sugar processors additional time to market their sugar.

Loan Rates for 1985-Crop Sugar Beets and Sugar Cane--On September 25, Secretary Block announced a national average loan rate of 18 cents per pound for the 1985 crop of domestically-grown sugar cane. The loan rate for refined sugar made from the 1984 crop of sugar beets is 21.06 cents per pound.

Fiscal 1986 Market Stabilization Price for Sugar--On September 27, Secretary Block announced a market stabilization price (MSP) of 21.50 cents a pound for raw cane sugar during fiscal 1986 (Oct. 1, 1985-Sept. 30, 1986). The market stabilization price is the sum of the loan rate for fiscal 1986 (18.00 cents per pound), adjusted average transportation costs for shipping raw cane sugar (2.51 cent per pound), interest costs of repaying a sugar price support loan at full maturity (0.79 cent per pound) and two-tenths of a cent per pound for marketing.

Sugar Import Quota for 1985/86--The base import quota for sugar during the upcoming 10-month quota year beginning December 1, 1985 will be 1,720,000 short tons, raw value. Minimum boatload shipments plus "specialty" sugar imports of 2,000 short tons may bring total quota imports to about 1,850,000 short tons, raw value.

Livestock

Avian Influenza Eradicated from U.S.--On May 29, avian influenza, a devastating disease of poultry, was officially declared eradicated from the United States. On November 9, 1983, USDA declared an "extraordinary emergency" to combat a serious outbreak of avian influenza that was decimating poultry flocks in southeastern Pennsylvania. The disease later spread to Virginia, Maryland and New Jersey. During an 11-month eradication effort, more than 17 million birds in 452 flocks were destroyed, primarily in Pennsylvania and Virginia. Federal indemnities totaled $41.9 million, with an additional $22.6 million in federal support costs, for a total eradication cost of $64.5 million. Although the disease is now officially eradicated, and all restrictions on interstate movement of poultry and related items are removed, poultry growers should not relax their vigilance. Avian influenza appears to occur naturally in wild waterfowl, and therefore, poultry growers must follow strict security measures to prevent any contact between their poultry and wild fowl.

New Pseudorabies Test Proposed--On August 19, USDA proposed to add the Enzyme-Linked Immunosorbent Assay (ELISA) test to the list of official tests for pseudorabies. Pseudorabies is a herpes virus infection that can cause serious losses in swine. The ELISA test is at least as sensitive as the other three official tests now available, but it has the advantages of being quicker and more convenient under certain circumstances. The tests are used for determining the eligibility of certain animals for movement in interstate commerce.

Brucellosis--On August 6, USDA declared Montana and Wyoming "class free" states in its national program to eradicate the cattle disease brucellosis. Sometimes called Bang's disease, brucellois causes reduced fertility and lower milk yields in infected cattle. Under a classification system that began in 1982, USDA rates States as class free or class A, B or C, depending on their rates of infection in herds and in individual cattle. Federal regulations restrict the movement of cattle from infected areas in order to prevent the artificial spread of the disease.

On September 12, USDA proposed revisions in its brucellosis regulations. The main change would require vaccination of certain cattle moving into or out of class B or C states or areas. State regulations already enforce these vaccination requirements; this change would make them enforceable under Federal regulations as well. Another proposed change would require those stockyards approved specifically to handle brucellosis-infected or exposed cattle in interstate shipment to install impervious floors in the pens that hold such animals. A third change would establish procedures for movement of cattle that do not meet testing or vaccination requirements for further shipment. These animals would be allowed to move directly to slaughter or to a quarantined feedlot only, or would be required to be returned under permit in a sealed vehicle to the state of origin.

Lifting Paratuberculosis Regulations Proposed--On September 16, USDA proposed lifting Federal restrictions on movement of cattle with paratuberculosis, a chronic cattle disease that can cause diarrhea and weight loss. States, in cooperation with individual herd owners, are better equipped to deal with the disease. According to USDA officials, the best way to prevent spreading the disease is by herd owners practicing good husbandry, in particular strict sanitation.

Rules for CEM Testing Amended--On October 4, USDA amended its rules for testing for contagious equine metritis (CEM) of horses exported to the United States from countries where the disease exists. CEM, a venereal disease of horses that affects fertility and breeding, is known to exist in Austria, Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Sweden, the United Kingdom, and Japan. Before being allowed to enter the United States horses from these countries must be tested and found negative for the disease three times, with an interval of not less than seven days between tests. Collection of specimens for the third and final negative test must be made within 30 days of export.

Electrical Slaughter Permitted--USDA now allows Federally inspected slaughter plants to electrically stun cattle and hogs, which instantly stops the heart. Scientific research indicates that electrical slaughter is effective and humane, and results in good quality meat comparable to that produced in the traditional manner. This new method, also called "deep stunning," applies sufficient voltage to cause instant cardiac arrest and stops blood circulation to the

animal's brain. Previously, the regulations required animals to be stunned into unconsciousness and then bled.

Trichina Regulations--USDA has found that many small firms producing dry-cured or county hams use traditional procedures believed to destroy trichina parasites but that do not meet USDA requirements. These producers can continue to use traditional, but not specifically approved, methods of trichina destruction while research determines effective new ways of destroying this parasite. Firms continuing to use such procedures passed August 6 must submit a description of their processes to USDA for approval.

Meat Grading and Certification Fees--The hourly fees charged for USDA's meat grading and certifications services, effective on an interim basis since March 31, became final July 14. Under the changes, meatpackers and processors will be charged $26.40 for services of 8 hours or less per day between the hours of 6 a.m. and 6 p.m., Monday through Friday; $34.40 for services in excess of 8 hours per day between the hours of 6 a.m. and 6 p.m., or after 6 p.m., Monday through Friday, and anytime on Saturday and Sunday; and $52.80 for the hours a meat grader works on a Federal holiday.

Vitamin E and Lecithin Approved for Use in Bacon--USDA now permits meat processors to use two forms of vitamin E as an additive in curing solutions for bacon to inhibit the formation of nitrosamines. Lecithin may also be added during processing to help incorporate vitamin E into the curing solution. The two forms of vitamin E--d-alpha or dl-alpha tocopherol--and lecithin are generally recognized as safe food additives by the Food Drug Administration.

Animal Import Reservation Fees Amended--USDA increased reservation fees at quarantine facilities for importing birds and animals and changed the provisions for forfeiture of those fees, effective August 15. This action was necessary for more efficient use of the facilities and to reduce losses from cancellations. The amended regulations set the reservation fee for each lot of animals or birds to be quarantined at $2,500 or 25 percent of the cost of providing care, feed, and handling, whichever is less. The minimum fees remain at $80 for each lot of birds or poultry, $130 for each horse, and $240 for each lot of other animals. If an importer fails to deliver the birds or animals within 24 hours of the designated time of arrival, the fee will be forfeited. This provision does not apply if the veterinarian in charge of the quarantine facility receives written notice of cancellation at least five working days in advance for horses or fifteen working days for birds or other animals. However, a $40 cancellation fee will be deducted from the reservation fee to cover administrative costs.

Flexible Rules for Shipping Meat and Poultry Products Proposed--On August 16, USDA proposed that certain meat and poultry processing plants operating under USDA's total quality control (TQC) inspection system be allowed to expand their regular operating shifts from eight hours to up to 12 hours. The proposal would allow plants that have operated under a USDA-approved TQC system for at least one year to expand their daily operating schedules upon USDA approval. Plants receiving approval would be able to produce and ship products for up to four more hours daily without paying for a USDA inspector's overtime services or holding the shipment until the next regular shift.

Testing Program for Drug Residues in Young Calves--Effective September 9, USDA made permanent its program for detecting of sulfa and antibiotic drug residues in young calves slaughtered for meat products. The in-plant residue testing program, begun under an interim rule in June 1984, became permanent because it

proved successful in reducing the incidence of drug residues. The testing program is limited to young calves up to three weeks old or 150 pounds in weight, and does not include older calves raised for "fancy" veal (the source of such cuts as veal chops or roasts).

Changes in Product Certificates Proposed--On September 17, USDA proposed changing its rules for issuing Federal agricultural product certificates for meat and meat products. The proposal would allow the issuance of weekly agricultural product certificates instead of the current daily and biweekly certificates. The change would reduce certificate preparation time and processing costs. Agricultural product certificates are official notices that meat and meat products comply with all Federal standards, specifications, and regulations. The certificates are also used to assess charges for meat grading performed by the Agricultural Marketing Service.

Labeling Authority Proposed for Certain Meat and Poultry Plants--On September 24, USDA proposed allowing certain meat and poultry processors to label products. The proposal would allow plants that have operated under USDA-approved total quality control (TQC) system for at least one year to prepare and label, without additional approval, products with a set standard of composition established by USDA. In March 1983, the Food Safety and Inspection Service streamlined the label approval system by granting inspectors-in-charge the authority to approve certain routine labels. A "generically approved" label category was also created allowing all plants to make minor changes on previously approved labels without additional USDA approval. Since then, approximately 500 plants have used 6,000 generically approved labels.

New Inspection System for Turkeys--USDA has adopted an alternate slaughter inspection system for turkeys that is more efficient than traditional inspection methods and just as effective. The new system will allow plant employees independently to trim bruises and other defects after the turkey has passed USDA inspection. Under traditional inspection methods , inspectors identified defects, directed plant employees to trim them, then verified that the trimming was done properly. Now one inspector will be able to examine up to 25 light birds per minute (those weighing less than 16 pounds) up from the 20 possible under traditional methods. This final rule became effective October 16.

New Poultry Grade Standards Proposed--On October 24, USDA published a proposal that would establish a new grade standard and revise some existing standards for poultry. The proposal would establish a new grade standard to permit voluntary grading of boneless poultry and boneless-skinless poultry products (poultry meat). The proposal also would revise the rules for displaying the USDA identification symbol and grademark on poultry product packages, which would allow processors greater flexibility in placing the symbol and grademark on packages so that they are easily visible and compatible with various colors of packaging materials.

Buffalo Inspection--USDA has adopted more flexible rules for the Federal inspection of buffalo before slaughter. Under the new rules, inspection of live buffalo will no longer be required to take place only on plant premises. Instead, starting November 15, USDA inspectors will be able to check live buffalo at three alternate locations: (1) on the producer's premises, (2) outside the transport vehicle at the slaughtering plant or (3) in a pen at the plant.

Animal Embryo Imports--USDA has issued regulations that will allow importation of animal embryos into the United States. Present regulations deal only with live animals, animal products and semen. The new regulations require importers to obtain an import permit and a health certificate that indicates the disease status of the sire and donor dam. The embryo may be conceived as a result of artificial insemination with semen collected at an approved artificial insemination center or conceived by natural breeding by a donor sire. In either case, the donor dam must be bred at an approved embryo transfer unit.

Dairy

Dairy Diversion Payments--On June 6, ASCS released statistics on the diversion program created by the Dairy and Tobacco Adjustment Act of 1983. Through May 31, 1985, dairy diversion payments to U.S. producers totaled about $995 million, while collections totaled $875 million. Highlights include:

- Approximately 20 percent of all commercial producers signed up for the diversion plan.

- 75 percent of all payees received $25,000 or less.

- About 36 percent of all payments went to payees in the $5,000-$25,000 range.

- 8 percent of the payees received nearly 37 percent of all payments. (Thus, the 8 percent of the producers receiving the largest payments under the dairy diversion program received approximately the same total payment as the 75 percent of the payees in the lowest category.)

Dairy Support Price Reduced--The national support price for milk was reduced from $12.10 to $11.60 per hundredweight July 1. Even with the reduced support price, it is estimated that net price support purchases by CCC for the 12 months beginning July 1 will be 10.7 billion pounds milk equivalent--more than double the trigger levels set by Congress in 1983. The reduction in the support price is needed to bring about a reduction in the excessive CCC purchases and cost of the program. The price support program for milk is carried out through CCC purchases of butter, cheese, and nonfat dry milk. The CCC purchase prices for these dairy products were adjusted on July 1 to reflect the lower support price.

National Dairy Promotion Order--Farmers across the U.S voted overwhelmingly in favor of continuing the Dairy Promotion and Research Order. The continuation was approved by 107,926 dairy producers, or 89.7 percent of the 120,330 producers voting. The Dairy and Tobacco Adjustment Act of 1983 required that a nationwide referendum be held to determine whether the order should be continued after September 30, 1985. Only those farmers who were engaged in dairy production during April 1985 were eligible to vote.

Nonfat Dry Milk Donations and Sales--On August 13, Secretary Block announced that the USDA will donate up to 1,000 tons of CCC-owned nonfat dry milk to the Illinois Agriculture for African Famine Relief Program. The dry milk will be used to manufacture approximately 6,700 tons of corn-soya-milk product for distribution in Africa.

On August 19, USDA sold $8.75 million worth of standard grade nonfat dry milk to Spain. The 55 million pounds of dry milk was purchased by the Association Empresarial de Fabricantes de Leches Artificiales para Animals (LACTANIMAL) for use as calf milk replacer. On October 22, USDA sold more than $6.3 million worth of nonfat dry milk to Austria. The 39,682,800 pounds was purchased by the Osterreichischer Molkerei-und Kasereiverband (OEMOLK) also for use as calf milk replacer.

Natural Resources

Lake Sampling Project--The Forest Service and the Environmental Protection Agency have agreed on a method to test the acidity and alkalinity levels of lakes in the West. Under the terms of the agreement, Forest Service personnel traveling by horse or on foot will collect water samples from wilderness lakes administered by the agency. (Motorized equipment is generally excluded from wilderness areas except in emergency situations). The Environmental Protection Agency will use helicopters to collect water samples from lakes outside of wilderness areas. This data collection approach is believed to be a good starting point for assessing the future impact of acid rain on the lakes.

Small Business Timber Sale Set-Aside Program--The Forest Service has established new procedures to administer the Small Business Timber Sale Set-Aside Program, effective October 1. The set-aside program, established under the terms of the Small Business Act, ensures that small businesses have the opportunity to purchase a fair proportion of timber sales from the national forests. Previous procedures established small business shares for each market area, generally a national forest. The new procedures revise the methods for determining small business shares, limit the volume of timber set aside in a given period, provide for early selection of set-aside timber sales, and set maximums and minimums for small business shares of timber sale offerings. These changes recognize regional differences in timber supply and demand, dependence on national forest timber, and market fluctuations in recent years.

Rules for Buy-Out of Federal Timber Contracts--On June 27, the Forest Service issued final rules for buying out unprofitable Federal timber contracts. The 1984 Federal Timber Contract Payment Modification Act allows purchasers of contracts for national forest timber to buy out of some contracts that have become unprofitable for them to fulfill. Purchasers are permitted to buy out up to 55 percent of the total volume they hold in contracts awarded prior to January 1, 1982 and still in force as of June 1, 1984. Individual purchasers may not, however, buy out more than a maximum of 200 million board feet. The cost will be determined on the basis of the purchaser's net worth and the estimated amount that would be lost if they were to meet the terms of the contract. This will be at least $10 per thousand board feet, and it may be 10 to 30 percent of the amount overbid on the contract.

Pest Control

Gypsy Moth--On June 20, USDA reported that it had completed seasonal treatments against outlying infestations of gypsy moths in nine states. Illinois, Indiana, Minnesota, North Carolina, Ohio, Oregon, Tennessee, Washington and Wisconsin participated in the cooperative treatment program sponsored by USDA's Animal and Plant Health Inspection Service. Gypsy moths are highly destructive insects that strip leaves from trees reducing growth and often killing infested trees.

Africanized Bee Quarantine--On August 15, USDA announced the quarantine of 462 square miles in Kern County, California to prevent the spread of Africanized honeybees recently found there. The quarantine restricts the interstate movement of honeybees in any life stage and certain other articles from the quarantined area.

Imported Fire Ant--Effective August 26, USDA expanded areas in South Carolina and Texas under regulation to prevent the spread of imported fire ants. The imported fire ant can sting people and animals and interferes with farming operations and other outdoor activities. The regulations restrict the movement of specified articles from all or part of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Texas and Puerto Rico to prevent artificial spread of the pest. Articles that may not leave the regulated area include soil (except commercially prepared and packaged potting soil in original containers), plants with soil on the roots (except home-grown houseplants), sod, hay and straw (unless used for packing or bedding), and used mechanized soil-moving equipment (unless cleaned of loose soil).

Medfly Restrictions Lifted--On August 27, USDA announced that all Federal Medfly restriction have been rescinded for Dade County, Florida. Fresh fruits, vegetables and plants can again move interstate. The area had been quarantined since May to prevent the spread of the Mediterranean fruit fly, a destructive pest of fruit and vegetables.

Oriental Fruit Fly Quarantine--On October 22, USDA quarantined two areas in California's Los Angeles and Orange Counties to help prevent spread of the oriental fruit fly. Male and female adults and larvae have been found in the two mainly residential areas. The quarantine regulations restrict the movement of oriental fruit fly hosts--approximately 100 kinds of fruits, nuts, vegetables and berries--as well as soil and some other items out of the infested areas. Before any of the regulated items can be moved interstate, a permit must be obtained from USDA.

Credit

Federal Crop Insurance--On June 18, the Federal Crop Insurance Corporation announced that it offered Master Marketers a new agency sales and service agreement for the 1986 crop year. This action was taken to streamline the agency's direct writing operations, which have outgrown the volume of Federal insurance being written. Since implementation of the Crop Insurance Act of 1980, crop insurance has been sold both by Master Marketers, agents for the sales and service of policies written by the Federal government (direct writing), and by private insurance companies who sell identical policies for which the companies assume risk but are reinsured by the Federal government against catastrophic losses (reinsured companies).

Commodity Credit and Crop Insurance Payments Temporarily Suspended--Payments made through Commodity Credit Corporation and Federal Crop Insurance Corporation programs were suspended from July 17 to July 24, because CCC had nearly depleted its $25 billion borrowing authority. The action temporarily halted payments for commodity loans, warehouse and producer storage, diversion programs and price support purchases, and crop insurance claims. Resumption of program payments was authorized after an emergency $1 billion to sustain the borrowing authority of CCC was provided in legislation passed by Congress and signed by President Reagan.

FmHA Guaranteed Loan Program--Farmers Home Administration has made some major changes in its guaranteed loan program. The changes, which became effective October 7, include:

-- Allowing a farmer to establish a "line of credit" with a participating lender, so approved funds may be advanced as needed for loan purposes.

-- Accepting the approved lender's completed forms as much as possible, to void duplication of paperwork, and to save time and effort.

-- Setting time limits for completing the loan guarantee application process.

-- Allowing farmers to use guaranteed loans to refinance direct FmHA loans.

-- Giving lenders quicker settlements on their loss claims.

-- Modifying requirements for approved lender status.

CCC Loan Rates--The interest rate on CCC loans fluctuated during June to October 1985. The rate dropped from 8-3/4 percent in June to 7-7/8 in July and 7-3/4 in August. It rose in September to 8-1/8 percent, but then declined again in October to 8 percent.

Nutrition

Income Eligibility Limits Increased for Federal Food Programs--On July 1, USDA increased the income limits for determining eligibility for the Food Stamp Program, the Special Supplemental Food Program for Women, Infants and Children (WIC), and the Free and Reduced-Price School Meal Programs. Adjustments are made annually to reflect changes in the cost of living. Under the new Food Stamp guidelines, the gross monthly income limit for family of four increased from $1,105 to $1,154. The net monthly income limit increased from $850 to $888 for a family of four. To be eligible for food stamps, a household's gross income must be no more than 130 percent of the poverty line, and the net income must not exceed 100 percent of the poverty line.

States have the option of determining eligibility for the WIC program based on either the new Federal guidelines or State or local income guidelines for free and reduced-price health care. State or local health care income guidelines, however, cannot exceed the new guidelines or fall below the Federal poverty income guidelines issued annually by the Department of Health and Human Services. The maximum income limit for a family of four under the WIC program increased from $18,870 to $19,703.

Income limits are also used as eligibility guidelines by schools, institutions and centers participating in the National School Lunch Program, School Breakfast Program, Special Milk Program and Child Care Food Program. Under the new limits, income for a family of four persons may not exceed $13,845 a year (130 percent of the official poverty line) for children to receive free meals in participating schools and institutions. The income limit for the 4-person family for reduced price meals increased from $18,870 to $19,703 (185 percent of the official povertv line).

Butter Distribution Temporarily Reduced--USDA's distribution of butter in the Temporary Emergency Food Assistance Program was reduced from a maximum monthly level of 12 million pounds to a maximum of 6 million pounds for August and September. The reduction was due to limited state interest in butter distribution during hot weather months. Other products available for monthly distribution to needy Americans includes: cheese (35 million pounds), nonfat dry milk (6 million pounds), rice (8 million pounds), honey (6 million pounds), flour (10 million pounds) and corn meal (10 million pounds).

Central Kitchen Inspection--On August 21, USDA proposed to exempt certain restaurant central kitchens from inspection of their food preparation operations. The proposal would exempt from Federal meat and poultry inspection requirements restaurant central kitchens that prepare ready-to-eat food only for restaurants under the same ownership as the central kitchens. Federal regulations currently require inspection of central kitchens that supply products to more than two restaurants operating under the same ownership.

Partially Defatted Meat Products--On August 23, USDA announced it is seeking public comments on labeling and other requirements for partially defatted products made from fatty meat tissue. Partially defatted products are made by cooking trimmings of fatty tissue containing some meat at 120 degrees F or lower. The growing use of products such as "partially defatted beef fatty tissue" and "partially defatted chopped pork" has caused USDA to re-examine the current policy and regulations for these products. The Food Safety and Inspection Service is considering several options to formulate clearer and more consistent regulations, including: a new single definition for the products; a descriptive name; limits or ranges of protein content and quality; limits or ranges of fat content; higher cooking temperatures for fatty meat tissue trimmings; and improved handling requirements.

Food Stamp Allotment Increased--People who use food stamps received an increase in benefits October 1, to keep their purchasing power in line with the June 1985 cost of buying food under the Thrifty Food Plan. The maximum monthly allotment for a family of four with no net income rose rom $246 to $268.

International

P.L. 480--On July 9, USDA issued revised country and commodity allocations for fiscal 1985 under Titles I and III of Public Law 480, the Food for Peace Program. The plan provided for distribution of $1,005.1 million in commodity shipments during the fiscal year which ended September 30, 1985. There was an increase in the allocation for the Dominican Republic, El Salvador, Ghana, Guatemala, Jamaica, Morocco, Pakistan, Sudan, Yemen and Zaire. Allocations to Costa Rica and Liberia were decreased and the allocation for Senegal withdrawn. Title I of P.L. 480 is a concessional sales program designed to promote exports of agricultural commodities from the United States and to foster economic development in recipient countries. The program provides loans of up to 40 years, with a grace period of up to 10 years and low interest rates. Title III provides for the forgiveness of the debt incurred under Title I, based on accomplishments in food for development programs and projects agreed upon by the U.S. and recipient countries.

A P.L. 480 Title I agreement with the Philippines was signed on July 8 providing for the sale of $40.0 million worth of U.S. rice (approximately 138,000 metric

tons). The Philippines agreed to carry out a number of self-help measures aimed at increasing agricultural production and rural incomes.

On July 31, A P.L. 480 Title I sales agreement with Ghana was signed to provide for the sale of $6.0 million is U.S. cotton (approximately 17,000 bales) and $3.0 million of U.S. rice (approximately 10,000 metric tons). Ghana agreed to carry out a number of self-help measures to improve the production, storage, and distribution of agricultural commodities.

On August 12, USDA announced the donation of 2,140 metric tons of raisins for feeding programs in India and Egypt under the P.L. 480 Title II humanitarian feeding program, which includes programs for school and mother-child feeding. The Title II program has been the primary mechanism which the U.S. has given food to needy people in poor countries of the third world.

On October 7, USDA released tentative fiscal 1986 food assistance allocations of $850 million--by country and commodity--under Titles I and III of P.L. 480. Thirty countries are scheduled to receive approximately 4.8 million metric tons (grain equivalent) of food assistance. The four largest allocations are scheduled for Bangladesh, $70 million; Egypt, $213 million; Pakistan, $50 million; and Sudan, $50 million. The initial allocations meet the legal requirement of Section III of the P.L. 480 Act, which directs that at least 75 percent of food aid commodities be allocated to friendly countries that meet the International Development Association poverty criterion. The countries in this category are those with an annual per capita gross national product of $790 or less.

<u>CCC Credit Guarantees</u>--On June 6, USDA authorized a $41.5 million credit guarantee line for Pakistan to buy additional U.S. wheat under CCC's Export Credit Guarantee Program (GSM-102) in fiscal year 1985.

On September 3, Secretary Block announced that $22 million in CCC credit guarantees have been authorized for sale of U.S. agricultural products to Hungary. The credit guarantees provide for the following purchases in fiscal 1986: $13.5 million of protein meals (soybean, cottonseed, and sunflowerseed); $2 million of soy protein products for human consumption; $5 million of cotton; $1 million of animal breeding materials including semen, embryos, and breeding animals; and $0.5 million of shelled almonds.

On October 10, USDA authorized $535.0 million in credit guarantees for exports of U.S. farm products to Korea under the Export Credit Guarantee Program for fiscal 1986. The guarantees provide up to $270.0 million in coverage for sales of cotton, $120 million for wheat, $40 million for feed grains (barley, corn, sorghum and oats), $35 million for soybeans, $20 million for tallow, and $50 million for undesignated commodities.

<u>Export Enhancement Program</u>--On May 31, USDA released further details of its $2 billion Export Enhancement Program. The goals of the program are (1) to expand sales of specified U.S. agricultural commodities in targeted markets over the next three years and (2) to encourage U.S. trading partners to begin serious negotiation on agricultural trade problems. Each targeted initiative must fulfill the following criteria:

-- Additionality. Sales must increase U.S. agricultural exports above what would have occured in the absence of a program.

-- Targeting. Sales must be directed at specific market opportunities, especially those that challenge competitors which subsidize their exports.

-- Cost effectiveness. Sales should result in a net plus to the overall economy.

-- Budget neutrality. Sales should not increase budget outlays beyond what would have occurred in the absence of the program.

So far Algeria, Egypt, Yemen, Morocco, Turkey, the Philippines, Jordan, and Zaire have been targeted under the program.

Bee Import Restrictions Imposed--On June 10, USDA imposed restrictions on imports of bees; used beekeeping equipment; and honey, beeswax and pollen for bee feed to prevent entry of exotic bee pests and diseases into the United States. The restrictions apply to all countries except Canada. These articles may be imported only if requirements involving permits, inspections, treatments, marking and shipping, and other restrictions are satisfied.

Honolulu Inspection Facility Approved for Animal Exports--On July 9, USDA added Honolulu, Hawaii, to the list of U.S. ports of embarkation where animals may undergo inspection prior to export to foreign countries. To receive approval as a port of embarkation, a port must have facilities for inspecting, holding, feeding and watering animals prior to export to ensure that the animals are in good condition and meet animal health requirements of the receiving country.

The Hawaii State Quarantine Station meets these requirements. The addition of Honolulu to the list of 24 other U.S. ports of embarkation will make it possible for Hawaiian shippers to export animals directly from the Islands rather than having first to ship animals to the mainland.

Great Britain Will Impose Import Requirements on U.S. Coniferous Wood--Beginning January 1, 1986, unseasoned and air-dried coniferous sawn wood from the United States will have to be certified free of bark before being allowed to enter Great Britain. The certification is being required by Britain's Forestry Commission in order to prevent introduction into that country of various species of bark beetles, which damage coniferous trees by burrowing under bark to reproduce and obtain food. The certification requirement may be satisfied by a "Certificate of Debarking" issued by an approved mill, or by a USDA-issued phytosanitary certificate showing the product has been inspected and meets Great Britain's import requirements that it is free of bark, plant pests and disease. Wood that has been kiln dried to less than 20 percent moisture content will not require certification, but each piece or bundle in a shipment must be marked "kiln dried" or "KD" at the mill.

U.S. and Yugoslavia Approve Joint Agricultural Projects--On June 19, USDA announced that 47 new agricultural research projects have been approved by the U.S.-Yugoslavia Joint Board on Scientific and Technological Cooperation. Scientists from USDA's Agricultural Research Service and U.S. universities will work closely on research projects with scientists at research institutes and universities in Yugoslavia. The research projects, which may run up to 5 years, are funded by the U.S.-Yugoslav Joint Board, the State Department and the Yugoslav government. More than 188 joints projects have been undertaken since 1961.

Agricultural Trade Office Opens in Iraq--On July 26, Secretary Block announced the opening of a U.S. agricultural trade office in Baghdad, Iraq. This is the fifth such office to be opened in the Arab world and the twelfth such office in operation worldwide. The purpose of these offices is to increase sales of U.S. food and fiber by facilitating contacts between local and U.S. business firms.

Departmental Actions

Farm Product Marketing Grants--On September 20, Secretary Block announced a $50,000 Federal grant to the Massachusetts Department of Food and Agriculture to help that state develop direct wholesale and retail markets for its farm products. The grant will be used to establish a wholesale-retail market outlet in the Worcester area. On October 2, Secretary Block announced that a $73,468 Federal grant had been awarded to the Iowa Department of Agriculture to also help that state develop wholesale and retail markets for its farm products. The grant will be used to fund surveys of Iowa fruit and vegetable producers to determine their interest in developing centralized post-harvest handling and marketing facilities in the state. The grants were awarded under USDA's Federal-State Marketing Improvement Program, which provides Federal matching funds to qualifying states for research and experiments in marketing, transportation and distribution of agriculture products.

AGRICULTURE - FOOD POLICY UPDATE: LEGISLATION

by Kim Yates*

Amendment of the Saccharin Study and Labeling Act--(P.L. 99-46)
This law amends the Saccharin Study and Labeling Act to extend to May 1, 1987, the period in which the Secretary of Health and Human Services cannot prohibit or restrict the sale or distribution of saccharin or saccharin products.

Urgent Supplemental Appropriations for USDA--(P.L. 99-71)
This law made an supplemental appropriation for USDA for the fiscal year ending September 30, 1985. The appropriation of $1 billion (money in the treasury not otherwise allocated) was made to prevent the Commodity Credit Corporation from depleting its borrowing authority.

Temporary Extension of Various Provisions of Law--(P.L. 99-114)
This law extended through November 15 certain provisions of the Agriculture and Food Act of 1981, which expired September 30, 1985. They include:

- -- maintaining the support price for milk at $11.60,
- -- continuing the operation of the Puerto Rican food assistance program on a cash basis, and
- -- allowing eight area demonstration projects (authorized under the Food Stamp Act of 1977) to give cash in lieu of coupons to Supplemental Security Income households participating in the projects.

This law also delays the announcement of the loan rate and national program acreage for extra long staple cotton until 10 days after the upland cotton program is announced.

Temporary Extensions, Tobacco Support, and Referendum Postponements--(P.L. 99-157)
This law again extends certain provisions of the 1981 Agriculture Act as listed above, this time through December 13, 1985. The law also postpones the referenda for the 1986 crop of cotton and for the 1986, 1987, and 1988 crops of peanuts. If Congress does not pass a Farm Bill this session, referenda with respect to marketing quotas would have to be held for the above crops not later than 31 days after adjournment. With respect to the 1985 crop of Burley tobacco, P.L. 99-157 lowers the support price from $1.788 to $1.488 per pound and changes the assessment from 30 to not more than 4 cents per pound.

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